

NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

THIS DOCUMENT IS UNCLASSIFIED 4

**AN ANALYSIS OF REASONS COMMERCIAL
ENTITIES PREFER NOT TO PARTICIPATE
IN DEFENSE BUSINESS**

by

Susan O. Randall

December 1997

Principal Advisor:
Associate Advisor:

David V. Lamm
Mark W. Stone

Approved for public release; distribution is unlimited.

19980427 158

REPORT DOCUMENTATION PAGE

Form Approved
OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.

1. AGENCY USE ONLY (Leave blank)	2. REPORT DATE	3. REPORT TYPE AND DATES COVERED	
	December 1997	Master's Thesis	
4. TITLE AND SUBTITLE		5. FUNDING NUMBERS	
An Analysis of Reasons Commercial Entities Prefer Not to Participate in Defense Business			
6. AUTHOR(S)		8. PERFORMING ORGANIZATION REPORT NUMBER	
Randall, Susan O.			
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)			
Naval Postgraduate School Monterey, CA 93943-5000			
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSORING / MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES			
The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.			
12a. DISTRIBUTION / AVAILABILITY STATEMENT		12b. DISTRIBUTION CODE	
Approved for public release; distribution unlimited.			
13. ABSTRACT (maximum 200 words)			
<p>In 1987, Dr David V. Lamm conducted a study to identify the extent to which firms have taken the position of refusing to participate in Department of Defense (DoD) business and the principal reasons for their refusal. Since his study, major changes have occurred in the acquisition environment resulting from the collapse of the Soviet Union and subsequent Defense budget reductions. Such changes include the passage of acquisition reform legislation that has prompted initiatives focused on streamlining the procurement process. The purpose of this study is to identify the extent to which companies prefer to not do business with DoD and the associated reasons for that preference in today's acquisition environment. A survey was sent to 1,300 companies in various industries. Analysis of the responses indicated that 42% of the respondents (primarily small businesses) refused to conduct business with DoD, twice the proportion of the 1987 study. Four of the five top concerns for not participating in Defense business in 1997 replicated the 1987 study's most serious concerns: burdensome paperwork, Government bidding methods, more attractive commercial ventures and low profits. This study analyzes industry's concerns and the implications for small and large businesses, subcontractors and prime contractors, and major industries.</p>			
14. SUBJECT TERMS		15. NUMBER OF PAGES	
Defense Industrial Base, Participation in Defense Business		184	
		16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT	18. SECURITY CLASSIFICATION OF THIS PAGE	19. SECURITY CLASSIFICATION OF ABSTRACT	20. LIMITATION OF ABSTRACT
Unclassified	Unclassified	Unclassified	UL

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)
Prescribed by ANSI Std. Z39-18

Approved for public release; distribution is unlimited

**AN ANALYSIS OF REASONS COMMERCIAL ENTITIES PREFER NOT TO
PARTICIPATE IN DEFENSE BUSINESS**

Susan O. Randall
Lieutenant Commander, United States Navy
B.S., San Diego State University, 1986

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
December 1997

Author:

Susan O. Randall
Susan O. Randall

Approved by:

David V. Lamm
David V. Lamm, Principal Advisor

Mark W. Stone
Mark W. Stone, Associate Advisor

Reuben T. Harris
Reuben T. Harris, Chairman
Department of Systems Management

ABSTRACT

In 1987, Dr. David V. Lamm conducted a study to identify the extent to which firms have taken the position of refusing to participate in Department of Defense (DoD) business and the principal reasons for their refusal. Since his study, major changes have occurred in the acquisition environment resulting from the collapse of the Soviet Union and subsequent Defense budget reductions. Such changes include passage of acquisition reform legislation that has prompted initiatives focused on streamlining the procurement process. The purpose of this study is to identify the extent to which companies prefer to not do business with DoD and the associated reasons for that preference in today's acquisition environment. A survey was sent to 1,300 companies in various industries. Analysis of the responses indicated that 42% of the respondents (primarily small businesses) refused to conduct business with the DoD, twice the proportion of 1987. Four of the five top concerns for not participating in Defense business in 1997 replicated the 1987 study's most serious concerns: burdensome paperwork, Government bidding methods, more attractive commercial ventures and low profits. This study analyzes industry's concerns and the implications for small and large businesses, subcontractors and prime contractors, and major industries.

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	INTRODUCTION	1
B.	RESEARCH QUESTIONS	2
C.	SCOPE, LIMITATIONS AND ASSUMPTIONS	2
1.	Scope	2
2.	Limitations	3
3.	Assumptions	4
D.	RESEARCH METHODOLOGY	4
E.	BENEFITS OF THE THESIS	7
F.	ORGANIZATION OF THE THESIS	8
II.	BACKGROUND AND LITERATURE REVIEW	9
A.	INTRODUCTION	9
B.	BACKGROUND	10
1.	Overview of "An Analysis of Reasons Companies Refuse to Participate in Defense Business"	10
2.	Major Events Impacting Defense Acquisition from 1987 - 1997	11
C.	HYPOTHESIS	28
1.	The Principal Reasons Companies Refuse Defense Business Will Not Significantly Change in 1997 When Compared to Dr. Lamm's Findings in 1987	28
2.	The Pre-award Phase of the Procurement Process Will be the Principal Focus of Respondent Complaints	30
D.	SUMMARY	31
III.	SURVEY DATA AND RESULTS	33
A.	INTRODUCTION	33
B.	DEMOGRAPHIC RESULTS	35
1.	Industry Classification	35
2.	Company Size	37

3.	Company Sales	39
4.	Prime Contractor Versus Subcontractor	42
C.	CONCERNS FOR PARTICIPATING IN DEFENSE BUSINESS	44
D	PROTESTS AND CLAIMS	51
E.	CONDITIONS FOR BECOMING A DEFENSE CONTRACTOR	54
F.	SUMMARY	56
IV.	COMPANIES THAT PREFER NOT TO PARTICIPATE IN DEFENSE BUSINESS.....	57
A.	INTRODUCTION	57
B.	GROUP A.....	57
1.	Major Industries.....	58
2.	Size of Business.....	59
3.	Company Sales	61
4.	Prime Contractor Versus Subcontractor	62
5.	Reasons for Unwillingness to do Business with DoD	63
6.	Protests and Claims.....	72
7.	Reasons for Becoming a Defense Contractor.....	74
C.	SUMMARY	77
V.	COMPANIES THAT DO NOT REFUSE TO CONDUCT BUSINESS WITH DoD	79
A.	INTRODUCTION	79
B.	GROUP B.....	79
1.	Major Industries.....	80
2.	Company Size.....	81
3.	Company Sales	82
4.	Prime Contractor Versus Subcontractor	83
5.	Reasons for Not Doing Business with DoD	84
6.	Conditions For Becoming a Defense Contractor	86
7.	Summary	87
C.	GROUP C	88
1.	Major Industries.....	88
2.	Size of Business	89
3.	Company Sales	91

4.	Prime Contractor Versus Subcontractor.....	93
5.	Concerns for Doing Business with DoD.....	95
6.	Protests and Claims.....	101
7.	Reasons For Becoming a Defense Contractor.....	103
8.	Summary	103
D.	GROUP D.....	104
1.	Major Industries.....	105
2.	Size of Business.....	107
3.	Company Sales	108
4.	Prime Contractor Versus Subcontractor.....	110
5.	Protests and Claims.....	111
6.	Reasons for Becoming a Defense Contractor.....	112
7.	Summary	113
VI.	INTERGROUP COMPARATIVE ANALYSIS	115
A.	INTRODUCTION	115
B.	OVERVIEW	116
C.	MAJOR INDUSTRY	118
D.	COMPANY SIZE	119
E.	COMPANY SALES.....	120
F.	PRIME CONTRACTORS VERSUS SUBCONTRACTORS	122
G.	TOP CONCERNS FOR PARTICIPATING IN DEFENSE BUSINESS	124
H.	PROTESTS AND CLAIMS.....	126
I.	REASONS FOR BECOMING A DEFENSE CONTRACTOR SINCE 1987.....	128
J.	SUMMARY	130
VII.	CONCLUSIONS AND RECOMMENDATIONS.....	133
A.	INTRODUCTION	133
B.	CONCLUSIONS.....	133

C. RECOMMENDATIONS	138
D. ANSWERS TO RESEARCH QUESTIONS.....	141
E. RECOMMENDATIONS FOR FUTURE RESEARCH.....	144
APPENDIX A. SURVEY QUESTIONNAIRE AND COVER LETTER.....	147
APPENDIX B. REASON CODES AND DEFINITIONS.....	155
APPENDIX C. GROUP B PRODUCT DESCRIPTIONS	157
APPENDIX D. COMPARISON OF GROUP A AND C CONCERNS FOR CONDUCTING DEFENSE BUSINESS USING THE TAXONOMY.....	159
LIST OF REFERENCES	161
INITIAL DISTRIBUTION LIST	165

LIST OF FIGURES

4.1	Group A Contractor Type Comparison	63
4.2	Group A Concerns Compared to Total Survey.....	64
5.1	Group C Contractor Type Comparison	94
5.2	Group C Concerns Compared to Total Survey.....	97
5.3	Group D Contractor Type Comparison	110
6.1	Small and Large Businesses by Percentage.....	120
6.2	Percentage of Sales by Nature of Work.....	121
6.3	Percentage of Sales According to Customer Location	122
6.4	Percentages of Prime and Subcontractors.....	123
6.5	Group Comparison of Percentages of Filed Protests and Claims.....	128

LIST OF TABLES

3.1	Breakdown of Groups.....	33
3.2	Primary Product/Service and Standard Industrial Classification (SIC) Code.....	36
3.3	Division of Major Industries.....	37
3.4	Major Industry Broken Down by Small and Large Business	38
3.5	Number of Employees.....	38
3.6	Number of Employees Through Affiliation With Other Companies.....	39
3.7	Percentage of Sales by Nature of Work.....	40
3.8	Percentage of Sales According to Customer Location	40
3.9	Sales Volume.....	41
3.10	Breakdown of Prime and Subcontractors	43
3.11	Small and Large Business Versus Prime and Subcontractors	43
3.12	Frequency of Reasons Cited by 154 Companies.....	46
3.13	Top Two Concerns for Large and Small Businesses	49
3.14	Major Industry Top Concerns	49
3.15	Reason Codes Distributed Within Martin Taxonomy	50
3.16	Distribution of Reasons Cited by 154 Firms Answering Question 9 Within Taxonomy.....	52
3.17	Protests and Claims.....	53
3.18	Reasons Why Companies Became Defense KTRs in Last Ten Years	55
4.1	Group A Major Industries.....	59
4.2	Group A Major Industry Subdivided by Small and Large Businesses	60
4.3	Group A Percentage of Sales by Nature of Work	61

4.4	Group A Percentage of Sales According to Customer Location.....	62
4.5	Group A Top Two Concerns for Large and Small Businesses.....	67
4.6	Group A Major Industries Top Concerns	70
4.7	Group A Distribution of Reasons Cited by 86 Firms Answering Question 9 Within Taxonomy	71
4.8	Group A Reasons Why Companies Became Defense Contractors in Last Ten Years	74
4.9	Conditions Group A Would Become a Defense Contractor	75
5.1	Group B Major Industries	80
5.2	Minor Industry Broken Down by Small and Large Businesses	81
5.3	Percentage of Sales by Nature of Work	82
5.4	Group B Percentage of Sales According to Customer Location.....	83
5.5	Group B Breakdown of Prime and Subcontractors	84
5.6	Group C Major Industries	89
5.7	Group C Major Industry Broken Down by Small and Large Businesses.....	90
5.8	Group C Percentage of Sales by Nature of Work	92
5.9	Group C Percentage of Sales According to Customer Location.....	92
5.10	Group C Top Two Concerns For Large and Small Businesses.....	98
5.11	Group C Major Industries Top Concerns	100
5.12	Group C Distribution of Reasons by 30 Firms Answering Question 9 Within Taxonomy	102
5.13	Group D Major Industries	106
5.14	Group D Major Industry Subdivided by Small and Large Businesses	108
5.15	Group D Percentage of Sales by Nature of Work	109

5.16	Group D Percentage of Sales According to Customer Location.....	109
5.17	Group D Protests and Claims	111
5.18.	Group D Reasons Why Companies Became Defense Contractors in Last Ten Years	112
6.1	Major Industry by Group	118
6.2	Group A and C Top Concerns.....	125
6.3	Consolidated Taxonomy for Groups A and C.....	126
6.4	Reasons Why Groups A, C and D Became Defense Contractors in the Last Ten Years	129

LIST OF SYMBOLS, ACRONYMS AND/OR ABBREVIATIONS

ADR – Alternative Dispute Resolution

CAS – Cost Accounting Standards

CICA – Competition In Contracting Act of 1984

COTS – Commercial-off-the-shelf

C/SCS – Cost/Schedule Control Systems

DCMAO – Defense Contract Management Area Operations

DLSIE – Defense Logistics Studies Information Exchange

DMR – Defense Management Review

DoD - Department of Defense

EDI – Electronic Data Interchange

FACNET – Federal Acquisition Computer Network

FAR - Federal Acquisition Regulation

FARA - Federal Acquisition Reform Act

FASA - Federal Acquisition Streamlining Act

GAO - General Accounting Office

GSBCA – General Services Administration Board of Contract Appeals

IFB – Invitation For Bid

ITMRA - Information Technology Management Reform Act

NPR – National Performance Review

OFPP - Office of Federal Procurement Policy

OMB - Office of Management and Budget

RFP – Request for Proposal

RFQ – Request for Quote

SIC – Standard Industrial Classification

SOW – Statement of Work

TINA – Truth In Negotiations Act

VAN – Value Added Network

I. INTRODUCTION

A. INTRODUCTION

This research will focus on the reasons commercial entities prefer to not do business with the Department of Defense (DoD). In March 1987, Dr. David V. Lamm conducted a study to determine the primary reasons for companies refusing to participate in defense business. He concluded that approximately twenty percent of the surveyed firms refused DoD business due to burdensome paperwork, Government bidding methods, more attractive commercial ventures and Government attitudes. Ten years later, the United States has experienced a reduced threat which has significantly impacted the Defense budget, primarily the procurement budget. Due to reduced resources, both people and dollars, the Federal Government has been forced to analyze its acquisition procedures and regulations and incorporate changes to make the process more efficient. Since 1987, the Defense system has undergone three major acquisition reform initiatives that many believe have made the acquisition process easier for both the government and industry. These reform initiatives are the Federal Acquisition Streamlining Act, the Federal Acquisition Reform Act and the Information Technology Management Reform Act. Some of the changes that resulted from these initiatives that may have impacted commercial firms attitudes toward conducting business with DoD include emphasis on performance specifications and procurement of commercial off the shelf (COTS) products, increased use of Electronic commerce and Electronic Data Interchange, and the requirement to debrief unsuccessful offerors. This follow-on study will look at the causes

for companies' preference for doing business with commercial firms versus DoD and determine if acquisition reform has affected their attitudes toward Defense business.

B. RESEARCH QUESTIONS

The objective of this study is to conduct an analysis of the industrial base to determine the extent that firms refuse to do business with DoD and the primary reasons for their refusal, given today's acquisition environment. With this objective in mind, the researcher will use the following questions to reach her objective:

- **Primary Research Question**

To what extent do companies prefer not to do business with the Department of Defense and how might the acquisition process be changed to enhance Government-industry relationships?

- **Subsidiary Research Questions**

- What are the reasons firms choose not to participate in defense business?
- To what extent do these reasons exist?
- Have the changes in the acquisition environment over the last ten years altered industry's view of Defense business?

C. SCOPE, LIMITATIONS AND ASSUMPTIONS

1. Scope

The main thrust of this study is to asses the scope of why commercial firms refuse to participate in Defense business. The focus is on both prime contractors and subcontractors from various industries (having the same SIC (Standard Identification Code) as those studied in Dr. Lamm's 1987 study) throughout the United States. The

researcher's objective in looking at both the prime and subcontractors from various industries was to duplicate Dr. Lamm's study as closely as possible to allow for comparisons, analysis and conclusions to be reached as a result of the change in the acquisition environment.

2. Limitations

This study has several limitations. First, this study could not entirely replicate Dr. Lamm's study. To do so, the same commercial firms would need to be surveyed today as they were ten years ago to determine if their views had changed toward the DoD acquisition process. The researcher could not contact all these firms because names and current addresses were not available.

Second, anonymity of the responder to the survey. This research included a statement in the survey stating that all responses would be held in confidence. Additionally, the researcher requested that the respondents provide their names and telephone numbers for follow-on interviews to be conducted. The majority of this study's respondents (59.5%), felt a need to remain anonymous.

The last limitation was the percentage of firms that responded to the survey. Only 19.1% of the mailed surveys were returned. This allows room to question the reasons why companies opted to not fill out the survey. Such reasons could be that they did not have time or the interest or they were somewhat content with DoD acquisition policies and practices and felt that their situation did not apply to the survey. If a large percentage did not respond to the survey due to the later reason, being content with DoD acquisition policies and practices, the lack of such information could adversely impact the conclusion

to the primary research question: To what extent do companies prefer not to do business with DoD?

3. Assumptions

It is assumed that the reader of this study has read "An Analysis of Reasons Companies Refuse to Participate in Defense Business" by Dr. David V. Lamm prior to this thesis. Although the results of his study are discussed in chapter two of this thesis, it would be beneficial to the reader to have read his entire study.

It was also assumed that by using a survey methodology that was similar to the 1987 study that valid comparisons and conclusions could be made.

D. RESEARCH METHODOLOGY

A comprehensive literature review was conducted concerning the Defense industrial base and changes in the Defense acquisition environment. The researcher obtained background information from the Defense Logistics Studies Information Exchange (DLSIE), Defense Contract Management College, libraries and the Internet. The primary research objective was to determine the extent of industries' refusal for DoD business and the most significant reasons for it. In addition to the primary objective, the researcher also wanted to determine if the changes in the acquisition environment over the last ten years had altered industry's view of Defense business. To reach these objectives and be able to make a comparison of the data, the researcher used Dr. Lamm's 1987 survey as a base and modified and added questions to accommodate her subsidiary research questions. The solicited survey comprised of 19 questions with the following objectives:

- To categorize the types of industries responding by:
 - SIC (Standard Industrial Classification) Code
 - Size of Company (number of employees and sales volume)
 - Area of concentration (Manufacturer, service provider engineering, retailer, or wholesaler)
- Whether the company had done defense business as a prime contractor or subcontractor.
- To categorize the responding firms in the following groups: a) firms that were somewhat content with doing business and will continue to do business with DoD; b) firms that were not involved with DoD, but intend to seek such business; c) firms that were not involved with DoD and had no intention of getting involved with DoD; and d) firms that were involved with DoD, but intended to discontinue business with DoD.
- To identify those firms who were not now involved with Defense business or intended to get out and the primary reasons directing their business elsewhere.
- To identify those firms who were not involved in Defense business and what it would take for those firms to consider participating in Defense business.
- To identify those firms that had become Defense contractors in the last 10 years and the reasons for the shift to defense business.

The survey questions were worded so that the responder had to do one of three tasks: fill in a circle for the answer that applied, rank his answers or provide further explanation of a previously answered question. This was done for several reasons. First, the survey was lengthy and the researcher wanted to make it as easy as possible for the company to reply. Second, the researcher wanted to make all responses as standardized as possible so that data analysis could be performed efficiently and effectively. The third

reason was to enable the researcher to gather data from e-mail and the Web site. A cover letter was attached to each survey to provide an overview of this study. The letter explained the background, purpose and usefulness of the survey results and requested the company's assistance in filling out the survey. A copy of the survey and the cover letter is shown in Appendix A.

The researcher provided the surveyed companies the opportunity to respond through hard copy mail, her Internet Web site or by e-mail. This was done in an attempt to increase the survey response rate by allowing companies to respond using the communication tool they were most comfortable with.

To replicate Dr. Lamm's 1987 study, 1,300 surveys were sent out to various industries (representing similar SIC codes identified by the companies that responded to his survey). A total of 1,200 were sent out by mail and 100 were sent out by e-mail. The researcher's initial plan was to send the majority of the surveys by e-mail; however, there were very few associations that maintained e-mail addresses. One association member who assisted the researcher in obtaining addresses, stated that e-mail addresses were not maintained because there are too many people who do not have an e-mail address. Additionally, for those who do have e-mail addresses, they tend to change them and it is too difficult for the association to keep up with those changes. As a result, the researcher sent only 13% of the surveys out by e-mail.

The researcher used several databases to acquire the 1,300 addresses for the survey. The researcher's primary source was the Encyclopedia of Associations. Using the SIC codes provided in Dr. Lamm's 1987 study, the researcher identified associations

that corresponded with those codes. Addresses were acquired by either contacting the association directly by phone or through their Web page membership directory located on the Internet. The researcher also used Moody's commercial data base and Dun and Bradstreet Market Services commercial data base. Although there were thousands of associations that were applicable to this study, the researcher's random sample was limited to using those associations that were willing to provide addresses or had them available on the Internet.

One month was allowed for companies to respond to the survey, both by hard copy mail and electronic mail. Of the 1,300 surveys mailed, 104 hard copy surveys and 31 e-mail addresses were undeliverable, allowing for a survey base of 1,165. A total of 222 surveys were returned, 212 by mail, 5 via the Web site and 5 through e-mail. The return rate for the survey was 19.1%, a 19.8% return rate for the mailed surveys and a 7.2% return rate for those surveys transmitted by e-mail. A breakdown of the data is provided in Chapter III, Survey Data and Overall Results.

A program was developed specifically for this survey using Microsoft Access software to accumulate and subsequently analyze the data. Access software is an excellent resource to develop customized databases and provides the necessary tools to develop and analyze the data.

E. BENEFITS OF THE THESIS

The purpose of this study is to determine if the reasons for not doing business with the DoD have changed since 1987. If the reasons have changed, the researcher will attempt to identify the cause for industry's change in attitude. Acquisition reform is a key

indicator as to why industry may have changed their attitude over the last 10 years.

However, if the primary reasons remain the same for today as compared to 1987, such a constant could indicate that acquisition reform has not affected the maintenance of the Defense industrial base.

F. ORGANIZATION OF THE THESIS

The remainder of the thesis is organized into the following chapters:

- Chapter II, "Background and Literature Review", presents the reader with background information on the history of the Defense industrial base and the major events, since 1987, that have impacted defense acquisition policies.
- Chapter III, "Survey Data and Results", provides a descriptive and/or graphical breakdown of all of the data obtained from the solicited survey.
- Chapter IV, "Companies That Prefer to Not Do Business With DoD", presents an in-depth analysis of survey results for companies that are currently involved in Defense Business and intend to get out or companies that are not involved with DoD and have no intention of pursuing such business.
- Chapter V, "Companies That Do Not Refuse to Conduct Business With DoD", presents a detailed analysis of the remaining companies of the survey. These companies are divided into three groups, 1) companies that do not know how to gain access to Defense procurement or are unaware of Defense requirements, 2) companies that are conducting business with DoD, but have concerns, and 3) companies that are conducting business with no concerns.
- Chapter VI, "Intergroup Comparative Analysis", provides a comparative analysis between the four groups to determine existing similarities and differences.
- Chapter VII, "Conclusions and Recommendations", provides the researcher's principal conclusions and recommendations from this study.

II. BACKGROUND AND LITERATURE REVIEW

A. INTRODUCTION

A Defense industrial base capability is a skill, facility, process, or technology needed to design, develop, produce, repair, or maintain products used by the Department of Defense (DoD). DoD is operating in a defense environment that is very different from that of the past: the threat has changed, DoD has become a smaller customer with changing needs and industry has continued to downsize. As a result, DoD acquisition policy has changed to make DoD a more efficient buyer and to help maintain the industrial base to ensure competition is maintained and that defense industry stays in business and can produce needed equipment in the future [Ref. 9:pp. 1-5].

In 1987, Dr. David V. Lamm published a study titled "An Analysis of Reasons Companies Refuse to Participate in Defense Business". Through his research, he determined the top reasons that discourage companies from doing business with DoD. The purpose of this thesis is to determine if the changes in the acquisition environment, over the last ten years, have impacted company's attitudes towards conducting business with the DoD.

This chapter begins with a brief overview and results of Dr. Lamm's study. Following the overview, the researcher will review major events, since 1987, that have impacted defense acquisition policies. The researcher will discuss the importance of these events to defense industries. In closing this chapter, the researcher will identify and discuss her hypothesis for this study.

B. BACKGROUND

1. Overview of “An Analysis of Reasons Companies Refuse to Participate in Defense Business”

Dr. David V. Lamm conducted a study, “An Analysis of Reasons Companies Refuse to Participate in Defense Business” in March 1987. At that time, the Defense industrial base had been plagued with several problems over the few previous years. Such problems included aging equipment, diminishing sources, lengthening lead times, long lines of supply and reliance on foreign sources [Ref. 22]. Dr. Lamm conducted the study because there was a fear that the ability of the supplier network making up the Defense industrial base (at the subcontractor and small business levels) was in danger of becoming too small to be effective. The Defense industrial base was and continues to be extremely important and acquisition policies need to ensure that competitive sources of supply for goods and services can be maintained to accommodate increased production during surge and mobilization demands. To the extent that commercial firms are unwilling to participate in DoD business, the capability to increase production on short demand might be seriously affected. Dr. Lamm’s findings, which apply to this thesis, are as follows [Ref. 10:pp. 84-92]:

- The principal reasons companies refuse Defense business relate to: (1) burdensome paperwork; (2) Government bidding methods; (3) inflexible procurement policies; and (4) more attractive commercial ventures.
- The reasons least responsible for dissatisfaction with DoD business are: (1) inefficient production levels/rates; (2) unsuccessful in the competition; (3) methods used by prime contractors; (4) small business set-asides; (5) insufficient Defense business; (6) Government furnished equipment

problems; (7) adverse court, board or General Accounting Officer decisions/rulings; and (8) terminated contracts.

- The pre-award phase of the procurement process was the principal focus of respondent complaints.
- Companies refusing DoD business have essentially no difference in their reasons than companies who are in Defense business but have difficulties with the system.
- Reasons for subcontractor dissatisfaction with the procurement process is essentially no different than that at the prime contractor level.
- There is a significant difference between the number of target firms who want Defense business as compared to the number of target firms who refuse Defense business.

2. Major Events Impacting Defense Acquisition from 1987 - 1997

a. Packard Commission

Maintaining a fair, efficient, and open system of defense procurement has been a fundamental public policy since the earliest days of the Republic, as well as a specific congressional goal since DoD was created by the National Security Act of 1947 [Ref. 3:p. 1]. In the decades that followed, six major executive branch commissions separately examined the perennial problem of defense management [Ref. 3:p. 1].

During the past 20 years, Government contracting with the DoD has undergone more change than it has in the previous 200 years. In the early 1980's, most of the changes were regulatory and legislative. The initial focus was to streamline the process, however, considerable oversight was added as a result of the fallout of the \$800 hammer and \$1000 toilet seat [Ref. 11:pp. 10-11]. The Competition in Contracting Act of 1984 was responsible for some of the increased regulatory changes. In the eyes of some, this

legislation was aimed at curbing corruption and as a result made the Federal procurement system over-regulated and excessively bureaucratic. Vendors selling to the Federal Government were faced with more than 100 contract terms and conditions not found in the commercial world, such as cost and pricing data requirements and post-award price adjustments and audit rights. Burdensome requests had made selling to the Government less attractive and consequently deprived the nation of some the latest and greatest products [Ref. 27].

In June 1986, the President's Blue Ribbon Commission on Defense Management headed by David Packard, provided a comprehensive analysis of the major problem areas affecting defense management [Ref. 3:p. 1]. The results of the Packard Commission stated that defense acquisition was impossibly cumbersome and recommended that Congress work with the Administration to recodify Federal laws governing procurement into a single consistent, and a greatly simplified procurement statute. Although the Packard Commission findings were significant, it failed to prompt the legislative changes that many had thought possible [Ref. 11:p. 2].

b. The End of the Cold War

It was in 1989 that the Soviet Union went through an historical shift. The collapse of international communism and the end of the four-decade-long Cold War significantly impacted the United States [Ref. 14:p. vi]. The nation began to reassess its security interests, restructure its military capabilities and redirect a portion of its defense dollars. The overarching need to reduce the Federal budget deficit and the growing public preoccupation with domestic and economic issues exerted downward pressures to

reduce the Defense budget. The normalization of U.S.-Soviet relations, characterized by arms reduction agreements and a quest for accommodation in other areas of common interest added pressures for greater stringencies in defense spending [Ref. 14:pp. vi-xiv]. In post-World War II history, the period 1985-1995 represents the longest consistent decline in the Defense procurement budget [Ref. 19:p. 10]. This significant change in history and the consequential reduction in the Defense budget have and will continue to impact DoD's acquisition policies and procedures. DoD acquisition was forced into becoming more streamlined and innovative in procuring weapon systems, equipment, supplies and services to accommodate the reduced budget [Ref. 24]. It was evident that the dramatic reductions in defense spending were sufficient by themselves to create a presumption that the acquisition system of the future would demand better management by fewer people of far fewer tax dollars. Additionally, U.S. defense contractors continued to face their greatest challenge, to survive in an intensely competitive market during continuing reductions in DoD budgets. Legislative reform was necessary to enable both government and industry to operate more efficiently with reduced budgets [Ref. 24].

c. The Advisory Panel on Streamlining and Codification of The Acquisition Laws

Secretary Of Defense Dick Cheney set forth to implement the findings from the Packard Commission and provide the framework for continuing improvements in Pentagon acquisition practices [Ref. 3:p. 2]. He did so by initiating his 1989 Defense Management Review (DMR). The executive-legislative branch partnership was implicitly recognized by the Senate in approving the legislation, which authorized the

formation of the “Advisory Panel on Streamlining and Codification of the Acquisition Laws”. The purpose of this Advisory Panel was to take the general principles set forth in the Packard Commission and DMR studies and prepare a practical, workable set of recommended changes to the acquisition laws [Ref. 3:p. 2].

The Advisory Panel concentrated on changes that would streamline DoD's procurement process in the 1990's, when dollars were expected to be fewer, work forces smaller, and superpower security threats less urgent [Ref. 3:p. 2]. The panel focused on three major areas [Ref. 3:pp. 6-7]:

- ***Streamlining***. Almost 300 statutes were to result in a streamlined system of acquisition laws, more easily understood, administered and implemented.
- ***Commercial Items***. The Panel recommended extensive reforms needed to enhance the acquisition of commercial items, both as end-items and as components of DoD systems.
- ***Simplified Acquisition***. The Panel determined that the creation of a new “simplified acquisition threshold” set at \$100,000 would streamline more than 50 percent of all DoD contract actions over \$25,000, and affect less than 5% of its contract dollars.

These three areas of focus proved to be valuable and are supported by other studies. Two congressional studies completed in the aftermath of the Gulf War simultaneously praised the performance of U.S. weapon systems, but cited the burden of regulatory controls imposed through the DoD acquisition system as an important factor in the decline of the industrial base [Refs. 3:p. 3; 16:p. 5]. Dr. George K. Krikorian conducted a study in 1993 and addressed the Acquisition Law Advisory Panel on his findings. He cited in his article, “DoD's Cost Premium Thirty to Fifty Percent, National

Defense" that acquisition laws represented the apex of a "cascading pyramid" of restrictive regulations. He stated overly detailed military specifications, and common procurement practices, typically added 30-50 percent to the costs of doing business with the Department of Defense [Ref. 9:p. 1].

d. The National Performance Review

Vice President Gore concluded his National Performance Review in September, 1993 and submitted his report, "Creating a Government that Works Better & Costs Less", to President Clinton [Ref. 7:p. 1]. The report cited that DoD's procurement system relied on rigid rules and procedures, extensive paperwork, detailed design specifications, and multiple inspections and audits. It pointed out that the Defense's procurement system was antiquated and cost the Government in two ways: first, the Government was paying for the bureaucracy that it had created to buy things, and second, manufacturers were building the price of dealing with this bureaucracy into the prices they charged. Vice President Gore recommended to the President to streamline the procurement system by rewriting the Federal Acquisition Regulation (FAR) and suggested that by doing so, would save the Government \$22 billion over 5 years [Ref. 7:p. 3]. Although not stated in the NPR, it is important to recognize that even though the additional cost of excessive regulatory controls experienced by the contractors are passed onto DoD, there are additional impacts to DoD. First, companies expend additional effort toward complying with the regulations and forego investing in new technology [Ref. 3:p. 14]. Second there are companies that opt to not do business with DoD because it is not worth their effort to comply with the strict regulations, which subsequently minimizes the

industrial base [Ref. 8:p. 44]. The NPR's proposed changes included [Ref. 13:pp. 44-45]:

- Shifting from rigid rules to guiding principles;
- Promoting decision making at the lowest possible level;
- Ending unnecessary regulatory requirements;
- Fostering competitiveness and commercial practices;
- Shifting to a new emphasis on choosing “best value” products;
- Facilitating innovative contracting approaches;
- Developing a more effective process to listen to its customers, line Managers, Government procurement officers, and vendors that do business with the Government.

Following the NPR review, the President tasked the director of the Office of Management and Budget (OMB) to implement the NPR recommendations [Ref. 13:p. 44]. A working group was then established to address the specific issues. The working group was subsequently suspended in September 1994, immediately prior to the implementation of the Federal Acquisition Streamlining Act (FASA) on October 13, 1994 [Ref. 13:p. 44].

e. The Federal Acquisition Streamlining Act (FASA)

FASA was a landmark legislation designed to transform the procurement process into a simplified, more efficient and accessible system [Ref. 25]. It has and continues to impact how the Government conducts business with industry. The following are highlights of FASA [Refs. 25; 26]:

- ***Simplified Acquisition Threshold (SAT).*** Eliminates most paperwork and record keeping requirements for high volume acquisitions below \$100,000. Instead of detailed "full and open competition" procedures that were then currently required when making a purchase of over \$25,000, agencies can now use simplified procedures for soliciting and evaluating bids. The use of SAT reduces the amount of staff time spent on record keeping and subsequently reduces the costs for both the Government and its suppliers;
- ***Micro-purchases.*** Micro-purchases allow for purchases of items below \$2,500 to be bought without competitive quotations or compliance with Buy American Act stipulations and certain small business requirements. The use of micropurchases speeds the acquisition process and reduces paperwork;
- ***ADR (Alternative Dispute Resolution).*** Extends the authority to use ADR under the Contracts Dispute Act until October 1, 1999. The Use of ADR helps reduce the number of protests, disputed claims and helps improve the partnering relationship between the government and buyer.
- ***Commercial Products.*** FASA encourages agencies to buy more off-the-shelf products instead of those designed to Government-unique design specifications. It did this by expanding the definition of "commercial items" to include not only products customarily used by the general public, but certain commercial products and services using evolving technology that may not be currently available in the commercial marketplace. Recognizing the fact that many contractors have chosen not to do business with the Government because of the burden of providing cost data on defense contracts over \$500,000, the new law waived the requirement that contractors submit certified data justifying prices on competitively awarded commercial contracts. The law also waived prime contractor and subcontractor record keeping, reporting and compliance certification requirements under several statutes including the Contract Work Hours and Safety Standards Act, the Drug-Free Workplace Act, the Clean Air Act, and the Federal Water Pollution Control Act. By establishing such incentives to use commercial items, the law hoped to make Government procurement easier and less costly for both the Government and industry. However, it should be noted that, in some cases, industry prefers to use military specifications and

standards because they have either adopted the design specifications as internal processes and procedures or they do not want to have to develop the specifications themselves [Ref. 23];

- **FACNET (Federal Acquisition Computer Network).** FACNET was established to convert a current acquisition process overburdened by paperwork to an expedited electronic data interchange system (EDI) readily accessible to the public. The system is used to inform the public about Federal contracting opportunities and permit the electronic submission of bids and proposals. The network opens up the acquisition process to any business with a personal computer. The increased competition was expected to result in lower prices for goods and services;
- **Small Business Concerns.** The new law contained several provisions aimed at improving small-businesses' access to Federal contracts. It raised from \$25,000 to \$100,000 the dollar value of contracts to be reserved for small businesses. The law also created a Government-wide goal for women-owned small-business participation at not less than 5 percent of the total value of all prime and subcontract awards for each fiscal year.
- **Debriefs.** FASA requires that agencies notify all unsuccessful offerors of awards within three days of awarding contracts. Offerors then have three days to request debriefings. Within five days of receiving a request, agencies must offer debriefings that include overall rankings of all offerors and evaluated costs and technical ratings of the bids of the winning offer and the offeror being briefed. This section of the law was brought about because many believe that the historically high volume of protests were due partly to inadequate debriefings to disappointed bidders and that some companies were filing protests just to get more information on why their offers were not accepted. The acceleration of the debriefing process is expected to reduce significantly the number of frivolous protests. Additionally, the required debriefs should help assist the unsuccessful offeror in putting together future proposals;
- **Past Performance.** FASA makes clear that it is both relevant and appropriate for an agency to consider the contractor's past performance in evaluating whether that contractor should receive future work. Steven Kelman of the Office of Federal Procurement Policy (OFPP) stated that the Federal Government is finally

moving toward a much more commercial direction, where high standards are set for companies who have good performance. However, civilian firms do have concerns about the Government's use of past performance. First, they are concerned the Federal program managers-whose jobs depend on the success of the contracts they are running might not be unbiased in their appraisal of vendors. Second, new companies or those that have never held Federal contracts have expressed concern that they might be discriminated against under the new criteria. Third, companies are concerned that they could be penalized for circumstances beyond their control-such as an agency changing its mind on technical specifications after a contract has been awarded. The contractor's last concern is that their reputation could be put at risk by agencies trying to cover up their own mistakes.

- ***Performance Based Contracting.*** FASA introduced performance based contracting, which means defining the work to be performed in measurable, mission-related terms in contrast to former Statements of Work (SOW) that defined work in broad, imprecise terms. Performance based contracting was expected to cut prices and improve contractor performance by encouraging innovative and efficient approaches to work. The procurement methodology also was expected to decrease the need for expensive and time-consuming contract audits and allow for the conversion of cost-reimbursement contracts to fixed-price contracts.

Prior to FASA's passage many of the commercial companies were reluctant to do business with the Federal Government because of the costs and risk associated with the myriad of cost accounting rules, socioeconomic statutes, and Government-peculiar inspection systems that applied only to Government contracts. FASA established special procedures for purchasing commercial items which specifically addressed these concerns: 1) It exempted commercial item procurements from many of the burdensome reporting and record keeping requirements of many statutes that in the past were incorporated into contracts through contract clauses; 2) exempted commercial item procurements from the requirement for the submission of cost or pricing data in

negotiating a fair and reasonable price; 3) Preserved commercial manufacturers intellectual property rights in their commercial products; 4) did away with all Government peculiar contract clauses and requirements and relies instead on standard commercial practices; and 5) established a preference for contractor quality systems and standard commercial warranties [Ref. 22].

f. The DoD Regulatory Cost Premium: A Quantitative Assessment

Working in parallel with the OMB working group for the NPR implementation, Secretary of Defense, Dr. William Perry requested that a study be performed to assist DoD's reform effort by providing estimates of the industry cost impact of DoD regulation and oversight [Ref. 2:p. 1]. Because of the complex regulatory environment that DoD and Congress had developed in attempt to maintain public accountability in defense acquisition and prevent contractor abuses, Secretary Perry believed that there was a need to balance the protection against contracting abuses with a concern for the cost of this oversight. Secretary Perry believed that the study results would support his efforts to strike a balance between the need for adequate accountability and the costs of compliance and oversight, and in addition, promote a greater integration of DoD and commercial sectors, a necessity of maintaining a viable national industrial base that would be responsive to national security requirements. In December 1994, Coopers and Lybrand/TASC project team released the results of their study, "The DoD Regulatory Cost Premium: A Quantitative Assessment" [Ref. 2:p. 1]. The study provided DoD a detailed roadmap for reducing contractor's regulatory compliance costs. The results supported the new FASA requirement and Secretary

Perry's directive on the use of commercial specifications and standards, which represented a more balanced regulatory environment [Ref. 2:p. 1].

The project team found that the average DoD regulatory cost premium was 18 percent of the value added costs (total costs less the costs of material purchases) [Ref. 2:p. 12]. The results strongly suggested that the DoD regulatory environment imposed a substantial cost premium throughout the Defense sector, which ultimately is absorbed by DoD in the form of increased unit costs for military equipment and services. The study also suggested that the DoD acquisition environment imposed substantially greater compliance costs on those contractors that develop and manufacture products based on unique military designs, in comparison to facilities that produce items with a strong commercial orientation. The study group found that the top three cost drivers accounted for almost 25 percent of the total DoD cost premiums: MIL-Q-9858A; Truth in Negotiations Act (TINA); and Cost/Schedule Control Systems (C/SCS) [Ref. 2:p. 18].

MIL-Q-9858A requires detailed documentation of quality procedures and mandates extensive factory floor inspections contrary to the growing commercial emphasis on process control [Ref. 2:p. 20]. Industry's opinion was that the documentation and record-keeping requirements were excessive and that the Defense Contract Management Area Operations (DCMAO) Office resulted in unnecessary testing, delays in problem resolution and was counterproductive [Ref. 2:p. 20].

TINA is the legal basis for several FAR provisions that require contractors to justify their cost proposals with detailed cost or pricing data and is unique to Government contracting. These data must be sufficiently timely and accurate for the

Government contracting official to make a fair and reasonable price determination. The contractors argued that the Government requires costing data in a form that is much too detailed, and complain that this information must frequently be provided three different times for each contract: initially with the cost proposal, updated during negotiation, and finalized once negotiations are completed [Ref. 2:p. 21].

C/SCS applies primarily to major acquisitions and requires that contractors monitor and report on technical progress against the trend of budgeted vs. actual expenditures to explain significant deviations in periodic reports and to propose management responses to such deviations [Ref. 2:p. 22]. Although industry agrees that the general framework and principles of cost/schedule reporting are beneficial; all of the contractors participating in the study said that C/SCS reporting is too detailed, repetitive, and voluminous to be used effectively as a management tool by either the Government or industry. They also said that the requirement may in fact undermine program performance by diverting the time and attention of the company program manager [Ref. 2:pp. 22-23].

In comparing the results of the DoD Regulatory Cost Premium study that was performed in 1994 to Dr. Lamm's study, "An Analysis of Reasons Companies Refuses to Participate in Defense Business", conducted in 1987, the contractors' primary concerns for dealing with DoD are very similar. Both studies indicate that industry is primarily concerned with DoD requiring too much paper work, which is viewed as tedious, expensive, and unnecessary.

g. *The Federal Acquisition Regulation (FAR) Rewrite*

In August 1995, the Office of Federal Procurement Policy (OFPP) established an eleven member board of directors of senior Government officials to examine the FAR [Ref. 25]. The FAR is currently being rewritten in accordance with the NPR recommendation of changing the acquisition policy by converting the FAR from a set of rigid rules to guiding principles [Ref. 25]. There are several changes that have been proposed in the revision of the FAR that will achieve significant savings for both DoD and other Federal agencies and provide contractors greater flexibility in creatively offering true "best value" solutions to the customer. However, there are issues at hand that have become controversial among defense contractors and if written into the regulation could have an impact on whether they enter or remain in defense contracting [Ref. 25]. The Defense contractors' views were represented by Jim McAlesse, of McAlesse & Associates during a FAR Council Public Meeting on November 8, 1996 and are summarized in the following [Ref. 28]:

- *The newly "constricted" Competitive Range.* The current rule obligates the Contracting Officer to include all offerors with a "reasonable chance of being selected for award" in the competitive range. The proposed rule gives the Contracting Officer new authority to "constrict" the competitive range to an "efficient number" following the evaluation of initial proposals. The purpose is to make the process more efficient for the Contracting Officer and to notify the contractor that he does not have a reasonable chance of winning and to direct his efforts and money elsewhere. This represents a fundamental change to traditional negotiated procurements. The Government has shifted the competitive range dynamic from "when in doubt, keep them in" to "when in doubt, throw them out". Moreover, as long as the Government states its intention in the solicitation, the Contracting Officer may even identify the number of offerors that he or she intends to admit into the competitive range. This may place a premium on being rated

most highly in technical approach and other evaluation criteria, such as “past performance” on initial proposals. In effect, this change creates the equivalent of award on first and final offers (FAFO). Consequently, contractors who do not prepare their initial proposals as their best offer may not survive in the marketplace for lack of new business capture.

- ***Obsolescence of Best and Final Offers (BAFO) and the emergence of FAFOs.*** Currently, all proposals with a “reasonable chance of award” are generally admitted into the competitive range under the “full and open competition” mandated by the Competition in Contracting Act of 1984 (CICA). Consequently, contractors have historically declined to tender their best offers in their initial proposals. Instead, they wait until submission of BAFOs after the completion of discussions, when they had sufficient opportunity to identify the Government’s true “technical discriminators” and price sensitivity. Only then would contractors tender their genuine offers, often cutting their proposed price by as much as an additional 15% to further improve their chance of award. The proposed rule will allow Contracting Officers to have the discretion to selectively conduct “communications” with offers, prior to establishing the constricted competitive range and thereby making BAFOs increasingly obsolete. Contractors are concerned because it poses increased risk and potential adverse consequences to “full and open competition”.
- ***Past Performance.*** Although the FAR Part 15 rewrite does not alter the mandate for evaluation of past performance, the contractors have two concerns that may generate as a result of the FAR revision. First, The Government lacks a refined past performance system and there is room for error in the past performance grades. Second, an evaluation on initial proposals is a prime determinant of which offerors will be admitted into the competitive range. If a contractor was graded harshly for undue reasons, he is not given the opportunity to discuss the situation with the Contracting Officer before the determination of the competitive range is made.

h. The Federal Acquisition Reform Act (FARA)

The Federal Acquisition Reform Act of 1996 (FARA), passed as part of the Fiscal 1996 Defense Authorization Act, Section D, was enacted into law on February

10, 1996 [Ref. 29]. FARA expanded and improved upon the initiatives in FASA. It exempts contracts and subcontracts for commercial items from the application of Cost Accounting Standards (CAS). It also eliminated certain statutory certification requirements, such as the Drug-Free Workplace Act, when purchasing commercial items. Additionally, the Act broadened the definition of "Commercial Items" eligible for streamlined contracting procedures, including an expanded definition of "commercial services". These definitions included "market" as well as catalog prices. Other major impacting provisions of FARA included [Refs. 2:pp. 1-6; 22]:

- ***Competitive Range Determinations.*** This provision allows the Contracting Officer to limit the competitive range for competitive negotiated acquisitions for efficiency based on criteria set forth in the solicitation.
- ***Preadward Debriefings.*** FARA requires that the Contracting Officer promptly notify offerors when they are excluded from the competitive range and state the basis for the determination. The Contracting Officer must also advise excluded offerors that they must request a debriefing within three days. The Government may refuse a preaward debriefing request if not in its best interest, but must then offer a postaward debriefing. If the debriefing is held preaward, the Government may not disclose the number or identify other offerors and other specified information.
- ***Exception to Requirement for Certified Cost or Pricing Data.*** This rule amends the TINA to 1) exempt suppliers of commercial items from the requirement to submit cost or pricing data; 2) provides for the submission of other than cost or pricing data to the extent necessary to determine price reasonableness; and 3) removes specific audit authorities pertaining to information provided by commercial suppliers.
- ***Application of Simplified Procedures for Certain Commercial Items.*** Special simplified procedures are authorized for acquisitions of commercial items at amounts greater than the simplified acquisition threshold (\$100,000) but not greater than \$5

million, when the contracting officer reasonably expects, based on the nature of the commercial items sought and on market research, that offers will include only commercial items.

- ***Applicability of CAS to Contracts/Subcontracts for Commercial Items.*** This provision exempts “firm fixed-price contracts and subcontracts for the acquisition of commercial items” from CAS.
- ***Certification Requirements.*** A Contracting Officer may not require certification by a contractor or offeror unless the certification requirement is specifically imposed by statute.
- ***Simplified Acquisition Procedures/FACNET.*** This eliminates the requirement for individual procuring activities to become interim FACNET certified in order to use simplified acquisition procedures for purchases valued up to \$100,000. Authority to use simplified acquisition procedures to \$100,000 will revert back to \$50,000 unless the executive agency has achieved full FACNET certification by December 31, 1999. This change can be a double edged sword for contractors, especially small businesses. Although this is a more efficient system for releasing Request for Quotations (RFQ) and Request for Proposals and submitting proposals, the contractor will incur the cost of software (or translation services) required for use of electronic transactions. When the standards are shifted over time, the contractor will be required to acquire the updated software again. Also, FACNET requires the contractor to incur a significant cost burden of registering with a value added network (VAN) because the Federal system depends on them to connect contractors with the Government’s internal network [Ref. 20:pp. 35-49]. This section also states that micro-purchases may be awarded without soliciting competitive quotations if an authorized employee determines that the price is reasonable.

i. The Information Technology Management Reform Act

The Information Technology Management Reform Act (ITMRA) was also part of the 1996 Authorization Act [Ref. 29]. The major aspects of ITMRA are that the General Services Administration Board of Contract Appeals (GSBCA) protest jurisdiction was eliminated and GSA's role of coordinating and approving acquisitions

for information technology was transferred to executive agencies. One author wrote in the National Law Journal, that the elimination of protest jurisdiction is a significant change because it provides disappointed offerors a narrower and probably less receptive choice of forums in which to present protests complaints [Ref. 15:p. B4].

DoD continues to focus and support FASA, FARA and Congress' true intention in passing the two Acts, which is to transform the DoD procurement process into a simplified, more efficient and accessible system which enables the civilian and defense agencies to be governed by the same statutes [Refs. 7:p. 1; 20]. Through this focus, DoD has initiated several other policies that stem from FASA's provision of encouraging the use of commercial items. Such initiatives include Dual Use technologies, open systems approach, and single process initiative [Ref. 22]. Additionally, the Military Services were given authority by Congress in the Fiscal Year 1997 Defense Authorization Act to use "other transactions" in lieu of contracts when purchasing prototypes directly related to weapon systems. This type of agreement is not subject to the Federal Acquisition Regulation or to most statutes applicable to Government contracts and will favorably impact companies decisions on entering into an agreement with the DoD.

DoD acquisition reform efforts during the past years have focused on removing many of the impediments in the Defense acquisition process which have deterred companies from dealing with the DoD. Such impediments have prevented the DoD from accessing products and technologies available from commercial industry. From the literature presented in this chapter, it is evident that Congress and DoD have

implemented several initiatives in hope to reduce acquisition costs and cycle time, improve competition and maintain the industrial base.

C. HYPOTHESIS

As a result of the above discussion, the researcher hypothesizes the following:

1. The Principal Reasons Companies Refuse Defense Business Will Not Significantly Change in 1997 When Compared to Dr. Lamm's Findings in 1987.

The principal reasons companies refused defense business in 1987 were: 1) burdensome paperwork; 2) Government bidding methods; 3) inflexible procurement policies; and 4) more attractive commercial ventures. The researcher anticipates that the majority of the reasons will remain a top concern with the exception of inflexible procurement policies. It is believed that the burdensome paperwork will remain a critical concern for the following reason: Congress and DoD have made several improvements to the acquisition policy to reduce the contractor's paperwork, such as the elimination of CAS and certified cost and pricing data requirements from commercial procurements and the implementation of simplified acquisition procedures. However, companies will continue to believe that the Government is a bureaucracy that requires too much paperwork and oversite. Additionally, the emphasis of procuring commercial items is relatively new and there are still procurements that do not meet the criteria of being exempt from CAS and certified costing data. It is contractors whose procurements fall into this area that will continue to be concerned.

The researcher believes that the Government bidding methods will continue to be one of the principal reasons. The initiatives that affect this area are the SAT which simplifies the procedures for soliciting and evaluating bids and the use of FACNET which allows for the submission of bids and proposals. However, as previously discussed, there are contractors who have the concern of the additional costs being incurred because they are required to use FACNET and could counteract the benefits that FACNET is trying to bring to the contractor.

Inflexible procurement policies has been addressed in the changes made in the acquisition reform legislation. The use of commercial items has given the Contracting Officer flexibility in what he requires from the contractor. Additionally, performance based contracting has given the Contracting Officer more leeway because when used, it decreases the need for contract audits and allows for more fixed-price contracts. Last, the FAR now reads, "Government members of the Acquisition Team may assume if a specific strategy, practice, policy or procedure is in the best interest of the Government and is not addressed in the FAR nor prohibited by law, Executive order or other regulation, that the strategy, practice, policy or procedure is a permissible exercise of authority" [Ref. 6:p. 1]. Prior to this change, Contracting Officers were only allowed to act according to the FAR; if it was not specifically cited in the regulation, they were not permitted to take such action. This significant change has give the Contracting Officer greater flexibility and allows for innovation in soliciting and administering the contract. As a result, this change will cause "inflexible procurement policies" to no longer be a primary concern.

The researcher believes that the fourth reason, more attractive commercial ventures will remain a top reason because of the reduction in the Defense procurement budget. There are less weapon systems for DoD to buy and that require support. Consequently, there is only a limited amount of companies that will acquire contracts for those products and services. Many contractors will opt to do business with the commercial sector because there is insufficient DoD business available and the competition tight. Additionally, acquisition reform did not affect the profit levels that DoD negotiates. Many companies may still feel that they can achieve a higher profit by conducting business with the commercial sector. The researcher also believes that the reasons "inefficient production levels" and "insufficient Defense business" may move from the category of "least responsible" for dissatisfaction with DoD business to "the most responsible" because of the reduced procurement budget and subsequent reduced numbers of weapon systems being procured.

2. The Pre-award Phase of The Procurement Process Will Be The Principal Focus of Respondent Complaints.

Many of the acquisition reform initiatives addressed the pre-award phase and may have an impact on the reasons for companies preferring not to deal with the Government. Such initiatives include the use of simplified acquisition procedures, micro-purchases, required pre-award debriefings, FACNET for solicitations and submission of proposals/quotations, past performance during source selection, and the exemption of certification of CAS and cost and pricing data for negotiated competitive procurements of

commercial items/services. Consequently, the results of this study may reveal that there is a shift in concerns from the pre-award phase to the post-award phase.

D. SUMMARY

The DoD has undergone several changes in the last ten years. Changes in the global threat due to the end of the Cold War and subsequent reduced Defense budgets have significantly impacted how DoD operates today. The Defense system has been forced to look for efficiencies in its procurement system to accommodate the reduced procurement budgets and attempt to lift barriers in the procurement regulation that have previously prevented companies from competing for DoD business.

Earlier studies have identified barriers in the Government procurement regulation that have caused companies to not do business with the DoD. Dr. Lamm's study, "An Analysis of Reasons Companies Refuse to Participate in Defense Business" identified burdensome paperwork, Government bidding methods, inflexible procurement policies and more attractive commercial ventures as the top motivators, in 1987, that caused commercial firms to direct their efforts outside of DoD.

Since 1987, the Federal Acquisition Regulation has undergone scrutiny and major adjustments in an attempt to streamline the procedures and make the overall process more efficient, both for the government and industry. Significant changes to the regulation include the Federal Acquisition Streamlining Act of 1994, the Federal Acquisition Reform Act of 1996 and the Information Technology Management Reform Act of 1996. Although, the majority of these Acts have and are being implemented, the FAR is currently undergoing a major rewrite to incorporate the revisions into the regulation.

Because of the significant changes that the acquisition environment has undergone during the last 10 years, it is worthwhile to research the reasons that cause today's firms from refusing to do business with DoD and see if the changes in the Federal Acquisition Regulation have altered industries opinion toward DoD's procurement policies and procedures. This study will attempt to identify today's businessman's reasons for directing his business away from DoD and what would it take to cause him to compete in future DoD business.

III. SURVEY DATA AND RESULTS

A. INTRODUCTION

The survey was sent to a total of 1,300 businesses. The researcher requested that they conduct the survey and return it within a month from receipt. Of the 1,300 solicited surveys, 222 were returned within the one month time constraint. Nine surveys were returned after the cut off date and were not included in the data analysis. Of the 222 surveys, 17 companies returned blank survey forms because of company policies prohibiting its personnel from conducting surveys. This left a survey response base of 205. Of the 205 responding companies, 59.5% remained anonymous and 40.5% identified themselves and agreed to discuss their responses.

The researcher previously discussed the survey's purpose and methodology as well as the primary and subsidiary research questions. To adequately address each of the research questions, the researcher categorized all of the survey respondents into four alike groups and provided them each a reference group identification to facilitate analysis. The four categories are Groups A, B, C and D with the breakdown shown in Table 3.1.

TABLE 3.1			
BREAKDOWN OF GROUPS			
GROUP	CATEGORY DESCRIPTION	FREQ.	PERCENT
A	FIRMS THAT REFUSE DoD BUSINESS OR OR INTEND TO GET OUT OF DoD BUSINESS	86	42.0
B	FIRMS THAT DO NOT HAVE DoD BUSINESS -DO NOT KNOW HOW TO GET IN -DO NOT HAVE DEFENSE RELATED PRODUCT	45	21.9
C	FIRMS HAVE DoD BUSINESS BUT HAVE CONCERNs	30	14.6
D	FIRMS HAVE DoD BUSINESS AND NO CONCERNs	44	21.5
TOTAL SURVEY POPULATION		205	100.0

Source: Developed by Researcher

Group A is comprised of companies which do not have or do not intend to seek business with DoD. This group is the largest of the four subgroups, comprising 42.0% of the responses. In comparison with the 1987 study, the size of this group is significantly greater. Companies in 1987, who did not want business with DoD were represented by only 21.3% [Ref. 10:p. 70] of the responses. Possible reasons for this difference will be discussed later in Chapter IV, titled "Group A". Group B includes those firms that are not currently doing business with DoD due to two reasons: a) they do not know how to get into business with DoD; or b) they feel that their product or service is not one that DoD would require. This group consisted of almost 22.0% of the responding companies. This again is a significant difference from Dr. Lamm's study because the previously mentioned reasons (for Group B) for not doing business with DoD were not represented in his study at all. Group C includes those companies who have business with DoD and prefer to continue its business relationship, but have concerns and provided them in the survey. This group was represented by 14.6% of the total responses, signifying a major increase over the 1987 study where this group provided 28.7% of the responses [Ref. 10:p. 70]. The remaining group, Group D, represents those firms that are willing to do business with DoD and did not mention any concern in the survey. Group D encompasses only 21.5% of all the companies. Ten years ago, this group comprised 50.3% of the study's responding population [Ref. 10:p. 70].

This chapter will provide the overall results of this study and subsequent analysis. Chapters IV and V will provide the data and comparison analysis from Dr. Lamm's 1987

Industrial Base Study and intergroup comparisons for Groups A, B, C and D respectively.

B. DEMOGRAPHIC RESULTS

Questions 1-6 served the purpose of acquiring demographic information regarding the responding firms. These questions were centered on the firm's type of industry, number of employees, type of sale, location of customer and annual sales volume.

1. Industry Classification

Question 1B asked the companies to identify their Standard Industrial Classification (SIC) code. Of the 205 responding firms, only 65 provided this code. The researcher was able to make a determination regarding 124 of the 140 unidentified SIC codes based on the firm's product description provided in answer to question 1A [Ref. 5]. The SIC code for 16 companies could not be determined, due to insufficient information regarding their product description. For those 16 companies, the SIC code is referred to as "unidentifiable" and represented with a code of XX. Table 3.2 illustrates the breakdown of responding companies by SIC code. A total of 31 SIC codes (out of a possible 99) are represented in the survey. To be able to make a valuable comparison between the two studies, Dr. Lamm's 1987 study and this 1997 study, the researcher grouped the SIC codes into eight major industrial categories: mining, construction, manufacturing, transportation and communication services, wholesale, retail, finance and other services [Ref. 5]. This resultant comparison is shown in Table 3.3. The largest category for Group A is manufacturing, comprising 58.0% of the responses. This category is so large because the majority of the surveys were sent to manufacturing firms.

TABLE 3.2				
PRIMARY PRODUCT/SERVICE AND STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODE				
MAJOR INDUSTRY	INDUSTRIAL CLASSIFICATION NUMBER	CLASSIFICATION DESCRIPTION	NUMBER OF FIRMS	%
MINING	14	NONMETAL MINING	1	0.5%
CONSTRUCTION	15	GENERAL BUILDING CONTRACTORS	6	2.9%
	16	HEAVY CONSTRUCTION CONTRACTORS	1	0.5%
	17	SPECIAL TRADE CONTRACTORS	1	0.5%
MANUFACTURING	20	FOOD AND KINDRED PRODUCTS	5	2.4%
	22	TEXTILE MILL PRODUCTS	2	1.0%
	25	FURNITURE AND FIXTURES	5	2.4%
	26	PAPER AND ALLIED PRODUCTS	5	2.4%
	27	PAINTING AND PUBLISHING	2	1.0%
	28	CHEMICALS AND ALLIED PRODUCTS	8	3.9%
	30	RUBBER AND MISC. PLASTICS PRODUCTS	7	3.4%
	32	STONE, CLAY, AND GLASS PRODUCTS	1	0.5%
	33	PRIMARY METAL INDUSTRIES	5	2.4%
	34	FABRICATED METAL PRODUCTS	37	18.0%
	35	MACHINERY, EXCEPT ELECTRICAL	20	9.8%
	36	ELECTRIC AND ELECTRONIC EQUIPMENT	16	7.8%
	37	TRANSPORTATION EQUIPMENT	2	1.0%
	38	INSTRUMENTS AND RELATED PRODUCTS	2	1.0%
	39	MISC. MANUFACTURING INDUSTRIES	2	1.0%
TRANSPORTATION AND COMMUNICATION	42	TRUCKING AND WAREHOUSE	4	2.0%
	47	TRANSPORTATION SERVICES	1	0.5%
	48	COMMUNICATION	1	0.5%
WHOLESALE	50	WHOLESALE TRADE-DURABLE GOODS	16	7.8%
	51	WHOLESALE TRADE-NONDURABLE GOODS	4	2.0%
RETAIL	53	GENERAL MERCHANDISE STORES	1	0.5%
	57	HOME FURNITURE, FURNISHINGS AND EQUIP	1	0.5%
FINANCE	60	DEPOSITORY INSTITUTIONS	0	0.0%
SERVICES	73	BUSINESS SERVICES	17	8.3%
	75	AUTO REPAIR, SERVICES, AND GARAGES	1	0.5%
	76	MISC. REPAIR SERVICES	1	0.5%
	80	HEALTH SERVICES	3	1.5%
	87	ENGINEERING, ACCT, RESEARCH, MGT AND RELATED SERVICES	11	5.4%
UNIDENTIFIED	XX	UNIDENTIFIED	16	7.8%
	Total		205	100.0%

Source: Developed by Researcher

Dr. Lamm's study was made up 38 SIC codes (10 responses could not be determined).

His largest industry group was also manufacturing, which comprised 84.1% [Ref. 10:pp. 11-12] of the total survey population.

INDUSTRY GROUPING	1997 RESULTS		1987 RESULTS	
	NUMBER OF FIRMS	%	NUMBER OF FIRMS	%
MINING	1	0.5	0	0.0
CONSTRUCTION	8	3.9	7	1.6
MANUFACTURING	119	58.1	359	84.1
TRANS. & COMM.	6	2.9	3	0.7
WHOLESALE	20	9.8	14	3.3
RETAIL	2	1.0	5	1.2
FINANCE	0	0.0	3	0.7
SERVICES	33	16.1	26	6.1
UNIDENTIFIED	16	7.8	10	2.3
TOTAL	205	100.0	427	100.0

Source: Developed by Researcher

2. Company Size

The researcher also subdivided survey respondents into large and small businesses. Using the Federal Acquisition Population [Ref. 6:Part 19.102] and the company SIC code, number of employees and sales volume (provided in answers 1B, 2, 3 and 6 of the survey), the researcher determined whether the company was a small or large business. In doing so, the researcher found that 31.2% of the responding companies were large companies, 56.1% were small companies. A total of 12.7% could not be determined. These groups are shown in Table 3.4. When the respondents were grouped into major industries, each major industry grouping showed that the majority of the

companies were small businesses, with the exception of mining, construction, and transportation because their population were too small to see a trend.

<u>MAJOR INDUSTRY GROUP</u>	<u>LARGE BUSINESSES</u>		<u>SMALL BUSINESSES</u>		<u>UNDETERMINED</u>	
	<u>FREQ</u>	<u>%</u>	<u>FREQ</u>	<u>%</u>	<u>FREQ</u>	<u>%</u>
MINING	0	0.0	1	0.5	0	0.0
CONSTRUCTION	5	2.4	3	1.5	0	0.0
MANUFACTURING	35	17.1	77	37.6	7	3.4
TRANS. & COM SERVICES	4	2.0	2	1.0	0	0.0
WHOLESALE TRADE	8	3.9	12	5.9	0	0.0
RETAIL	0	0.0	2	1.0	0	0.0
SERVICES	9	4.4	21	10.2	3	1.5
UNIDENTIFIED	0	0.0	0	0.0	16	7.8
TOTAL	61	29.8	118	57.6	26	12.7

Source: Developed by Researcher

The purpose of questions 2 and 3 was to group the responding firms based on number of people employed. Tables 3.5 and 3.6 provide the breakdown of companies with no affiliation and companies who are affiliated with other companies, respectively.

<u>NUMBER OF EMPLOYEES</u>		
<u>EMPLOYEES</u>	<u>NUMBER OF COMPANIES</u>	<u>%</u>
1 - 19	46	22.4%
20 - 49	26	12.7%
50 - 99	18	8.8%
100 - 249	36	17.6%
251 - 499	15	7.3%
500 - 999	13	6.3%
>= 1000	35	17.1%
NO ANSWER	16	7.8%
TOTAL	205	100.0%

Source: Developed by Researcher

Table 3.5, titled "Number of Employees" represents the firms that indicated they did not have any affiliation with other companies. The Table shows that the largest category of personnel employed is between 1 and 19. This corresponded to the 1987 study, where the largest group was 1-25 employees.

Table 3.6 identifies the firms that are affiliated with other companies. A total of 52 companies, (25.4%) indicated they were affiliated with other companies. This percentage is just a portion larger than the 1987 study where 21.8% of the respondents fell into this category. Additionally, both studies showed 1000 employees or more as the largest category.

TABLE 3.6		
NUMBER OF EMPLOYEES THROUGH AFFILIATION WITH OTHER COMPANIES		
EMPLOYEES	NUMBER OF COMPANIES	%
1 - 19	0	0.0%
20 - 49	3	5.7%
50 - 99	6	11.5%
100 - 249	4	8.0%
251 - 499	7	13.4%
500 - 999	11	21.1%
≥ 1000	21	<u>40.3%</u>
TOTAL	52	100.0%

Source: Developed by Researcher

3. Company Sales

Question 4 asked the companies to categorize their types of sales. Sixteen companies did not respond to this question. The survey provided six classifications: manufacturer of proprietary products, contract manufacturer for others, contract engineering for research firm, wholesale distributor, retailer and other. The results of the

1997 survey, illustrated in Table 3.7, show that the manufacturer of proprietary products is the largest category. This coincides with the major industry grouping where manufacturing prevailed as demonstrated in Table 3.3. Additionally, the majority of responses for the category "Other" indicated that they were involved in services. The 1987 study revealed that "Contract manufacturer" was the largest category (48.8%) and "Manufacturer of proprietary products" was the second largest category (29.4%).

TABLE 3.7	
PERCENTAGE OF SALES BY NATURE OF WORK	
NATURE OF WORK	PERCENTAGE OF SALES
MFG. OF PROPRIETARY PRODUCTS.	41.2%
CONTRACT MFG. FOR OTHERS.	13.1%
CONTRACT ENG. & RESEARCH FIRM	2.7%
WHOLESALE DISTRIBUTOR	19.2%
RETAILER	2.4%
OTHER	<u>21.5%</u>
	TOTAL
	100.0%

Source: Developed by Researcher

Table 3.8 represents how sales, according to customer location (provided in question 5), were grouped for the responding companies.

TABLE 3.8	
PERCENTAGE OF SALES ACCORDING TO CUSTOMER LOCATION	
MARKET	PERCENTAGE OF SALES
LOCAL	20.9%
REGIONAL	13.5%
NATIONAL	53.4%
FOREIGN	12.2%
	TOTAL
	100.0%

Source: Developed by Researcher

Each group has a corresponding percentage of sales that shows the level of sales that contribute to that particular group. The largest group for the 1997 study was sales attributed to the national market (53.4%); however, it should be noted that 16 companies did not respond to this question. The largest area for the 1987 study showed the local market as having the largest source of sales. This gives the appearance that companies may be expanding their sales targets from selling just locally to selling on the national level. Additionally, companies have increased their foreign market sales from 4.6% to 12.6% during the last 10 years [Ref. 10:p. 86].

Question 6 asked the surveying company to provide the dollar value of their annual sales. Ninety-two percent of the responding companies answered this question.

Table 3.9 identifies the breakdown for sales volume.

TABLE 3.9		
SALES VOLUME		
<u>SALES VOLUME</u>	<u>NUMBER OF COMPANIES</u>	<u>%</u>
UNDER \$100,000	2	1.0%
\$100,000 - \$500,000	16	7.8%
\$500,001 - \$1,000,000	10	4.9%
\$1,000,001 - \$5,000,000	31	15.1%
\$5,000,001 - \$10,000,000	18	8.8%
\$10,000,001 - \$50,000,000	50	24.4%
\$50,000,001 - \$100,000,000	14	6.8%
> \$100,000,000	48	23.4%
NO ANSWER	16	7.8%
TOTAL	205	100.0%

Source: Developed by Researcher

The majority of the companies' sales volumes fell into two categories: 1) \$10,000,.001 - \$50,000,000, comprising 26.5% of the responses; and 2) over \$100,000,000 , which made up 25.4% of the responses. This is significantly different from the 1987 study where

36.5% of the responses fell into sales volume between \$1,000,0001 and \$5,000,000 and 16.2% of the responses fell within the category of \$10,000,001 and \$50,000,000. This difference could be attributed to the different types of resources used to identify the solicited companies. Both studies used various industry associations; however, the 1997 study used Moody's Commercial Data Base which focused on large companies. The 1987 study did not use such a source and concentrated on other areas such as obtaining references from DoD buying offices, and Defense contractors, and professional associations.

4. Prime Contractor Versus Subcontractor

Questions 7 and 8 asked the surveying companies to select the categories that most accurately described their experience in Defense business and their attitude toward obtaining Defense business. The purpose of these questions was not to only understand their experiences and attitudes but to divide the responding companies into the following groups: prime contractor; subcontractor, both prime and subcontractor or undetermined (for those who did not answer the questions). The researcher found from question 7 that 44.4% of the respondents identified themselves as having no experience with Defense procurement. From the companies responding to the subcategories of Question 8, the researcher was able to breakdown the database into Groups, A, B, C and D (identified previously in this chapter and shown in Table 3.1) and then further subgroup them into their appropriate prime and subcontractor categories. Table 3.10 shows the size of the prime contractor and subcontractor groups. The largest category (63.4% of responses) was contractors who identified themselves as "both" a prime contractor and

subcontractor. In other words, they did not have a preference as to what type of business they received. The 1987 study had similar results: 64.8% of the responses fell under the category of "both" prime contractors and subcontractors; 21.6% of the responses were categorized as prime contractors; and 13.6% were categorized as subcontractors [Ref. 10:p. 78]. It should be noted that in the 1997 study, 7.8% of the companies did not respond to this question.

TABLE 3.10		
BREAKDOWN OF PRIME AND SUBCONTRACTORS		
<u>CONTRACTOR TYPE</u>	<u>FREQUENCY</u>	<u>%</u>
PRIME	35	17.1
SUB	24	11.7
BOTH	130	63.4
UNIDENTIFIED	16	7.8
TOTAL	205	100.0

Source: Developed by Researcher

The researcher also looked at the number of small and large businesses that were either prime contractors or subcontractors. This was done to make comparisons between each of the groups to determine if attitudes correlated with the size and type of contractor. Table 3.11 provides a breakdown for each of the categories.

TABLE 3.11				
SMALL AND LARGE BUSINESS VERSUS PRIME AND SUBCONTRACTORS				
	<u>SMALL BUSINESS</u>	<u>LARGE BUSINESS</u>	<u>UNIDENTIFIED</u>	<u>TOTAL</u>
PRIME	23	10	2	35
SUB	14	11	0	25
BOTH	81	40	8	129
UNIDENTIFIED	0	0	16	16
TOTAL	118	61	26	205

Source: Developed by Researcher

The Table indicates that Group A, companies who consider themselves both a prime and subcontractor and a small business, are the largest sector.

C. CONCERNS FOR PARTICIPATING IN DEFENSE BUSINESS

Question 9 focused on the reasons of why companies either refuse to do business with DoD or the reasons why they are intending to get out of the Defense business. Appendix B identifies the reasons and associated reason codes that will be used throughout this thesis. The researcher provided 26 possible reasons (reason codes A through Z) in the survey, but allowed respondents the opportunity to provide "other" reasons for not participating in Defense business. There were a total of 10 "other" reasons of which the researcher identified them using a 9A category numbering system. For example, 9A1 represents the reason "unfamiliar with entering DoD business".

Although the purpose of question 9 was to identify reasons why companies prefer to not participate in Defense business, almost 25.0% of the survey respondents stated they intended continue to do business with DoD, but cited their concerns in question 9. A total of 154 companies responded to question 9 voicing their concerns of dealing with DoD (includes those firms refusing DoD business, leaving DoD business, and planning to stay with DoD, but have concerns). Of the 154 companies that responded, 13 did not rank the reasons which resulted in a total of 143 ranked responses. Forty-six companies responded to 9A1 or 9A3 as their concerns, which were not problems in Defense procurement, but more of the companies lack of knowledge about DoD procurement system.

Table 3.12 provides a breakdown of the survey responses for question 9 in order of rank by most serious reason. The Table identifies the number of times a reason was annotated as a cause for concern. The Table also identifies the number of times the reason was ranked as the number one concern and the number two concern.

The top concern for Group A was burdensome paperwork, cited by 50.0% of the responding companies. Although this was ranked as the number one concern for both the 1997 and 1987 studies, the percent was reduced by 19.0%, from 69.0% to 50.0%. Although burdensome paperwork has continued to be the top concern, it appears that DoD is making strides toward reducing the paperwork burden for the contractor. Such initiatives have included increasing the threshold for certified cost and pricing data, the use of the micro-purchase card, and the emphasis on performance specifications. Government bidding methods was the second most serious response for both studies. The frequency of Government bidding methods has also significantly gone down since 1987, from 56.8% to 35.1%, a decrease of 21.7%. This reduction suggests that DoD has made improvements in its bidding methods. Such improvements may have been attributed to the new emphasis on using performance specifications. This initiative hoped to reduce the number of pages in solicitations, proposals and contracts, and thereby reduce the solicitation and proposal expense and at the same time reduce the source selection time. Another contributing factor could be the implementation of simplified acquisition procedures. Simplified acquisition procedures were aimed at reducing the amount of paperwork required for purchases less than \$100,000 (or \$200,000 for contingency contracting) [Ref. 25].

TABLE 3.12

FREQUENCY OF REASONS
CITED BY 154 COMPANIES

REASON CODE	REASON DESCRIPTION	Freq of Responses	%	Freq as #1 Rank	Freq as #2 Rank
B	Burdensome Paperwork	77	50.0%	35	15
F	Gov't Bidding Methods	54	35.1%	15	15
N	More Attractive Comm. Ventures	44	28.6%	15	8
9A3	Non-defense Related Product	37	24.0%	33	4
M	Low Profitability	29	18.8%	7	3
O	Inflexible Procurement Policies	26	16.9%	0	5
A	Late or Nonpayment	24	15.6%	3	5
S	Gov't Attitude	20	13.0%	0	0
E	Uncertain/instable Gov't Bus. Base	17	11.0%	2	3
G	Delays in Making Awards	17	11.0%	0	5
X	Not enough Defense Business	12	7.8%	3	1
Z	Too much Gov't oversight	12	7.8%	2	3
H	Frequent contract changes	11	7.1%	0	1
9A1	Do Not Know How to Get into DoD	9	5.8%	6	0
J	Inconsistent Quality Stds/Too High	9	5.8%	1	2
9A2	Onerous Specifications	8	5.2%	6	0
R	Inefficient Production Levels	8	5.2%	2	3
C	Large Business;work set-aside for small	7	4.5%	4	1
L	Audit Procedures	7	4.5%	0	0
I	Technical Data Rights Problems	5	3.2%	1	0
K	Acceptance/rejection problems w/product	5	3.2%	2	0
T	Unfair Application of Regulations	5	3.2%	0	0
V	Lost Business to Competitors	5	3.2%	2	0
D	Gov't Furnished Equipment Problems	4	2.6%	0	1
U	Prime Contractor/Higher Tier Sub Problems	4	2.6%	0	0
Y	Unfair Past Performance Evaluation	3	1.9%	0	0
9A6	Have Bid, But Cannot Win Award	2	1.3%	1	1
P	Adverse Court or Board Ruling	2	1.3%	1	0
A10	Regulations Are Too Hard to Understand	1	0.6%	0	0
9A5	DoD Has a Bad Reputation	1	0.6%	0	1
9A5	No Ability to Make Good Business Decisions	1	0.6%	0	0
9A7	Facilities are Overseas	1	0.6%	1	0
9A8	Entire Contracting Process Too Difficult	1	0.6%	0	0
9A9	Company Too Small for DoD Business	1	0.6%	1	0
Q	Adverse GAO Decision	1	0.6%	0	0
W	Contracts Terminated	0	0.0%	0	0

* 13 Companies did not rank their responses (143 responses in total)
and are included in total frequency but not the first and second rankings

Source: Developed by Researcher

It is interesting to note that of the people who identified Government bidding methods as a concern, and responded to the types of awards they had received, 41.7% of them replied that they had responded primarily to DoD's requests for proposals (RFP) followed by invitation for bids (IFB), representing 33.0% of the responses. The third most serious concern for the 1997 study was that companies did not feel that their products could be used by the Defense sector. This area will be discussed in more detail in Chapter IV under Group C. However, it is interesting to note that 24.0% of the responses for question 9 do not show companies as being discontent with DoD's procurement policies and procedures, but they simply were not aware of any Defense business opportunities. The third ranked reason for the 1987 study was inflexible procurement policies, comprising 38.0% of the responses. In the 1997 study, inflexibility was represented by 16.9% of the responses, again showing that DoD's steps taken in acquisition reform may be affecting companies' attitudes toward doing business with DoD. One example that has provided the contracting officer more flexibility in soliciting and administering the contract was an addition to the FAR, providing that if a certain action is not prohibited in the regulation and makes good business sense, the contracting officer is encouraged to employ such an action [Ref. 6:Part 1.102].

It appeared that the 1987 respondent's reasons were more evenly dispersed [Ref. 10:p. 71]. However, the 1997 respondent's reasons, were less diverse and focused primarily on seven reasons:

- Burdensome paperwork;
- Government bidding methods;

- More attractive commercial ventures;
- Low profitability;
- Inflexible procurement policies;
- Late or nonpayment;
- Government attitude.

The top two concerns were also determined for small and large businesses as well as for prime contractors and subcontractors. Table 3.13 suggests that regardless of size, the large and small businesses' top concern is that Government procurement involves too much paperwork. The number two concern for large contractors is there are more attractive commercial ventures available to them; however, the small businesses' number two concern is Government bidding methods. The unidentified companies were more concerned about the Government bidding methods followed by having a non-defense related product or service (a reason more than a concern). The companies that were categorized as either prime contractors or subcontractors or both all had the same number one and number two concerns, burdensome paperwork and Government bidding methods, respectively. The companies who did not identify themselves as either a prime and/or subcontractor were not doing business with DoD primarily because they had a non-defense related product or service (so they perceived) or they felt that their company was too small to do business with the Department of Defense. The concern codes in Table 3.13 are defined in Appendix B.

TABLE 3.13				
TOP TWO CONCERNS FOR LARGE AND SMALL BUSINESSES				
COMPANY CHARACTERIST	#1 CONCERN	FREQUENCY	#2 CONCERN	FREQUENCY
LARGE BUSINESS (61)	B	17	N	12
SMALL BUSINESS (118)	B	58	F	41
UNIDENTIFIED (26)	F	19	A3	3
PRIME (35)	B	13	F	8
SUB (24)	B	8	F	5
BOTH (130)	B	56	F	42
UNIDENTIFIED (16)	A3	15	A9	1

Source: Developed by Researcher

The researcher also looked at the top two concerns based on major industry. The results of this analysis appears in Table 3.14. It appears that burdensome paperwork and Government bidding methods were either the first or second ranked concern for all of the major industries. However, almost half of the major industries identified another reason as one of their top concerns.

TABLE 3.14				
MAJOR INDUSTRY TOP CONCERNS				
MAJOR INDUSTRY	TOP REASON	FREQ	NEXT REASON	FREQ
MINING	ONEROUS SPECS.	1	BURDENOME PAPERWORK	1
CONSTRUCTION	LARGE BUS.; NOT SET ASIDE	3	GOVT BIDDING METHODS	3
MANUFACTURING	BURDENOME PAPERWORK	50	GOVT BIDDING METHODS	29
TRANSPORTATION	MORE ATTRACTIVE VENTRURE	4	INFLEX. PROC. POLICIES	2
WHOLESALE	GOVT BIDDING METHODS	5	BURDENOME PAPERWORK	5
RETAIL	BURDENOME PAPERWORK	1	N/A	0
SERVICES	GOVT BIDDING METHODS	14	BURDENOME PAPERWORK	13
UNIDENTIFIED	NON-DEFENSE PRODUCT	10	GOVT BIDDING METHODS	2

Source: Developed by Researcher

The four different reasons were (1) onerous specifications (selected by mining), (2) set-asides for small businesses (identified by construction), (3) inflexible procurement policies (selected by transportation), and (4) non-defense related business (provided by

those companies that could not be categorized into a SIC/industry classification). With the exception of non-defense related product, the remaining reasons were shared by fewer than 17.0% of the responding companies.

The researcher used the Procurement Process Taxonomy developed by Martin, Heuer, Kingston and Williams and then further developed and used by Dr. David Lamm in his 1987 study [Ref. 10:pp. 23-27]. The use of this taxonomy allowed the researcher to breakdown the responses from question 9 into three categories based on where the reasons fell into the contracting cycle: 1) pre-award phase; 2) award phase; and 3) post-award phase. These categories were later subcategorized, as shown in Table 3.15, into four areas based on how each reason related to the following:

- Procurement process;
- Government decision;
- Contractor decision;
- Pervasive throughout the procurement process.

TABLE 3.15			
REASON CODES DISTRIBUTED WITHIN MARTIN TAXONOMY			
CATEGORY	PHASES		
	PRE-AWARD	AWARD	POST-AWARD
(A) PROCUREMENT PROCESS	F,I,L*	G	D,U,L*J,H,A
(B) GOVERNMENT DECISION	C,Q,V	9A6	K,P,W
(C) CONTRACTOR DECISION	E,M,N,R,X,9A1,9A3,9A7,9A9		
(D) PERVERSIVE THROUGH ALL PHASES	B,O,S,T,9A2,9A4,9A5,9A8,9A10		

* "L" IS LISTED IN BOTH Pre-Award and Post-Award phases.
 Source: [Ref. 13:p. 26] and Further Developed by Researcher

The reason codes shown in Table 3.15 are defined in Appendix B.

Table 3.16 demonstrates the results of Group A. From the 154 firms that answered question 9, there were 474 responses. Within the acquisition cycle categories, the majority of concerns were focused on the pre-award phase, containing 60.7% of the responses. This was slightly higher (by 8.0%) than the 1987 study [Ref. 10:pp. 31-63]. The smallest category was the award phase, constituting 14.0% of the responses. This was 4.0% less than the 1987 study. When the results were grouped on a basis of where the decisions were made, most of the responses fell under the contractor's decision, comprising of 33.3%, a significant increase (13.4%) over the 1987 study. This could be a result of the 1997 study being made up of 12.2% of firms that indicated that they did not know how to get into DoD business or they felt that their product or service was not related to DoD, both of which were categorized as a contractor's decision and were not found in the 1987 study. The smallest portion of the responses, coinciding with the 1987 study, were those concerns based on the Government's decision, making up only 4.6% of the responses.

D. PROTESTS AND CLAIMS

Questions 13 and 14 asked companies if they had ever filed a protest with GAO or claim with the Armed Services Board of Contract Appeals (ASBCA) or an appropriate court, and if they had, the nature of the ruling. Table 3.17 shows the results from responding companies. Only 5.8% of the responding companies had filed a protest with GAO, 50% receiving a sustained ruling and 50% receiving a denied ruling. This was a decrease from the 1987 study where 9.8% [Ref. 10:pp. 75-77] of the responding companies had protested; however, only 38% had their protests sustained. This decrease

TABLE 3.16

DISTRIBUTION OF REASONS CITED BY 154 FIRMS ANSWERING
QUESTION 9 WITHIN TAXONOMY

CATEGORY	PHASES		
	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS TOTAL = 142 PERCENT = 30.0% 1987 PERCENT = 38.4%	F=54 I=5 L=7 TOTAL = 66	G=17 TOTAL = 17	D=4 U=4 L=7 J=9 H=11 A=24 TOTAL = 62
GOVERNMENT DECISION TOTAL = 22 PERCENT = 4.6% 1987 PERCENT = 6.6%	C=7 Q=1 V=5 TOTAL = 13	A6 = 2 TOTAL = 2	K=5 P=2 W=0 Y= 3 TOTAL = 10
CONTRACTOR DECISION TOTAL = 158 PERCENT = 33.3% 1987 PERCENT = 19.9%	E=17 M=29 N=44 R=8 X=12 A1=9 A3=37 A7=1 A9=1 TOTAL = 158		N/A
PERVASIVE THROUGHOUT ALL PHASES TOTAL = 152 PERCENT = 31.2% 1987 PERCENT = 35.1%	B=77 O=26 S=20 T=5 Z=12 A2=8 A4=1 A5=1 A8=1 A10=1 TOTAL = 152		
TOTAL 474	TOTAL = 287.67 PERCENT = 60.1%	TOTAL = 65.67 PERCENT = 14.0%	TOTAL = 112.67 PERCENT = 25.3%
	1987 PERCENT = 52.0%	1987 PERCENT = 18.0%	1987 PERCENT = 30.0%

Source: Developed by Researcher

in protests and increase in percentage of sustained results could be an indicator that the post-award debriefs may be helping the unsuccessful offeror in determining the facts and whether it has a justifiable protest.

TABLE 3.17				
PROTESTS AND CLAIMS				
	NUMBER OF COMPANIES	% OF SURVEY	SUSTAINED	DENIED
FILED WITH GAO	12	5.9	6	6
FILED WITH ASBCA	3	1.5	0	3
FILED WITH COURTS	1	0.5	0	1
NO PROTEST OR CLAIM	<u>189</u>	<u>92.2</u>	N/A	N/A
TOTAL	205	100.0		

Source: Developed by Researcher

Table 3.17 also shows that there has been a significant drop in the number of companies pursuing claims with ASBCA or appropriate courts. In 1997, only 2.0% of the responding companies replied that they had filed a claim, all of which were denied. In 1987, 10.5% of the respondents had filed claims, of which 37.8% were sustained [Ref. 10:pp. 76-77]. The significant decrease in claims from 1997 to 1987 could be attributed to the fact that in the 1997 study, 30.7% of the 148 respondents answering question 16 indicated they had never done any business with DoD either as a prime or as a subcontractor. Additionally, 8.8% indicated that had no experience as a prime contractor and only some experience as a subcontractor. Consequently, 39.5% of the responding companies were not in a situation where they could file a claim because they either had no DoD contracts, or as a subcontractor had no privity of contract with DoD, requiring all claims to go through the prime contractor.

E. CONDITIONS FOR BECOMING A DEFENSE CONTRACTOR

The researcher asked companies who were not currently Defense contractors about those conditions which would have to be met in order to encourage them to begin doing business with DoD. Sixty companies (29.0% of respondents) replied to the question. The top four conditions, 56.7% of the responses, were the following:

- Use commercial specifications and standards;
- Eliminate minority set aside;
- Use realistic quality control standards;
- Reduce the amount of paperwork .

The need for increased use of commercial specifications and standards and streamlined paperwork coincides with the top concerns of the companies. However, the need for quality control standards was rarely addressed in the survey with the exception of this question. Additionally, it appears that companies do not mind the small business set asides (the number one reason why companies became Defense contractors in the last 10 years) but they tend to resent the advantages that minority set aside provides.

The researcher asked companies in the survey if they had become a Defense contractor in the last 10 years and if they had, what was the reason for going into the Defense business. This question was asked to determine if there was a trend in companies entering the Defense industry because of acquisition reform or other reasons. Of the 205 companies in Group A, 17.0% had become a Defense contractor in the last 10 years. Table 3.18 shows the results of this question.

TABLE 3.18			
REASONS WHY COMPANIES BECAME DEFENSE KTRs IN LAST 10 YEARS			
	REASON	FREQUENCY	PERCENT
OTHER REASONS 60%	NEW DEFENSE BUSINESS	12	22.6
	SMALL BUSINESS SET ASIDE	10	18.9
	NEW OPPORTUNITY EXISTED	5	9.4
	MET GOVT. NEEDS	2	3.8
	MORE OPPORTUNITIES THAN COMM.	1	1.9
	GSA SCHEDULE	1	1.9
	SMALL DISADVANTAGE BUS. SET ASIDE	1	1.9
ACQN. REFORM REASONS 40%	LESS MIL. SPECS.	4	7.5
	DEFINITION OF COMMERCIAL ITEM	4	7.5
	LESS PAPERWORK	3	5.7
	COST & PRICING DATA THRESHOLD	3	5.7
	EMPHASIS ON DEBRIEFS	3	5.7
	PAST PERFORMANCE	3	5.7
	EC/EDI	1	1.9
OTHER ACQN. INITIATIVES		0	0.0
TOTAL		53	100.0

Source: Developed by Researcher

The researcher identified new defense business, small business set aside, new opportunity, and more opportunities than commercially as reasons other than acquisition reform. The non-acquisition reform reasons received 60.0% of the responses. The acquisition reform responses were identified by 40.0% of the companies indicating the use of less military specifications and the new definition of a commercial item as the principal reasons. The companies' focus on performance specifications coincides with what the Government has been focused on since the Packard Commission and what many people prior to the Packard Commission felt would provide a large payoff in making the Government procurement system more efficient and subsequently less costly [Ref. 3:p. 10].

F. SUMMARY

In summary, the researcher has seen several trends in this study that were not as prevalent in the 1987 study. First, it appears that a greater percentage of companies today are less willing to deal with DoD mainly because of burdensome paperwork and Government bidding methods. This coincides with less companies found in Group C that are willing to do business with Defense while still having concerns. These two findings are cause for alarm because the Defense Department is at risk of having reduced competition resulting from a smaller Defense industrial base. The second area that differed from the 1987 study was that there are significantly more companies that have no idea that they have a Defense related product or know how to enter into the DoD business. These companies are potential suppliers that DoD can take advantage of in the future, if DoD improves how it publicizes its bidding methods and requirements.

This chapter has provided an overview of data obtained from the survey. The following two chapters will provide analysis of Groups A, B, C, and D.

IV. COMPANIES THAT PREFER NOT TO PARTICIPATE IN DEFENSE BUSINESS

A. INTRODUCTION

Chapter III presented the survey results and analysis for all of the respondents for this study's survey. The purpose of this chapter is to present the data and analysis for the first of the four subsets of the survey results, Group A. Group A represents those firms that currently refuse to conduct business with DoD or intend to get out of the Defense business in the future. The status of the respondent was determined by how the company answered question number eight of the survey. The remaining groups will be discussed in Chapter V.

B. GROUP A

Group A consists of 86 firms and represents 42.0% of the companies in the survey. This is a significant increase when compared to Dr. Lamm's 1987 results where the same group provided only 21.0% of the responses [Ref. 10:p. 70]. This change indicates that the number of companies that refuse to do business with DoD has nearly doubled in the last ten years. The reasons for the reluctance in dealing with the Defense will be discussed later in this chapter, however, the researcher found it interesting that several of the companies in Group A based their decision to refuse Defense business on stories they had heard from other people or experiences they had generally about 15 years ago. Some examples of their comments are:

- We have heard horrifying stories from some of our friends in various machining businesses;

- As a customer, the Government has a bad reputation;
- We bid many times during the early 1980's on military items spending many hours to read and understand the Government specifications that are required. We often found that our bid was too high 100% of the time. If we wanted to be competitive and lower our bid price, we would have made either minimal profit or none at all.

It is impossible to determine if the basis for companies refusing Defense business has changed over the last 10 years; however, it is apparent to the researcher that hearsay is a contributing factor as to why companies pursue business outside of DoD.

In a time where acquisition reform has been the main focus of the Defense procurement system (for the purpose of spending Government funds more efficiently and preserving the industrial base), it appears that companies are directing their energy elsewhere (based on their own or other's experiences), regardless of the Government's efforts.

1. Major Industries

In an attempt to understand Group A more, the researcher looked at it from various perspective and has provided the results of her analysis throughout this chapter. The researcher first categorized the Group A into major industries. This was done to determine if there were industries that were more unhappy in dealing with DoD than others. The size of each major industry was divided by the population size of Group A, thereby providing a percentage that could be compared to the overall survey results concerning major industries. The breakdown of major industries is shown in Table 4.1. Two companies could not be grouped into a major industry. Four industries (mining, construction, transportation and retail), where 50.0% or more of each of their total

populations, were discontent with Defense procurement and resulted in them refusing such business. However, the four industries had a total population of eight or less companies, which was less than 4.0% of the 205 respondents in the survey, and, as a result could not be used in determining industry wide trends. Three major industries had between 30.0% and 49.0% of their population refusing to commit to Defense business (manufacturing, wholesale and services). It appears to the researcher that the dissatisfaction with DoD is apparent through all industries and should be a major concern for DoD.

TABLE 4.1			
GROUP A MAJOR INDUSTRIES			
<u>INDUSTRY GROUPING</u>	<u>STUDY GROUP A NUMBER OF FIRMS</u>	<u>% OF INDUSTRY</u>	<u>TOTAL SURVEY NUMBER OF FIRMS</u>
MINING	1	100.0	1
CONSTRUCTION	4	50.0	8
MANUFACTURING	55	46.2	119
TRANS. & COMM. SERVICES	4	66.7	6
WHOLESALE TRADE	6	30.0	20
RETAIL	2	100.0	2
FINANCE	0	0.0	0
SERVICES	12	36.4	33
UNIDENTIFIED	2	12.5	16
TOTAL	86	42.0	205

Source: Developed by Researcher

2. Size of Business

The researcher subdivided the major industries into small and large businesses and then further into major industries. She found that the population levels for most of the industries were too small to adequately draw conclusions. However, the

manufacturing industry showed that 31.4% of its small businesses and 55.8% of its large businesses refused Defense business. The manufacturing industry resembled the overall results of the survey. The results of the breakdown for Group A's small and large businesses are provided in Table 4.2. The Table shows that almost 40.0% of the large businesses, and more significantly, 50% of the small businesses indicated their concerns with DoD procurement were so great that they would not participate in Defense business. The researcher believes that there is a greater proportion of small businesses because they do not have the same level of available resources (either money or people) to dedicate specifically to meeting Government requirements. The number of companies that could not be identified as either a large or small business was only three (12% of the unidentified population). This was comparatively a small percentage because the remaining unidentified companies were categorized in Group B because their reason for not participating in Defense business was due to a lack of information and not a specific problem with DoD.

TABLE 4.2									
GROUP A									
MAJOR INDUSTRY SUBDIVIDED BY SMALL AND LARGE BUSINESSES									
MAJOR INDUSTRY GROUP	GROUP A	LARGE BUSINESSES		SMALL BUSINESSES		TOTAL SURVEY	GROUP A	UNIDENTIFIED	TOTAL SURVEY
		%		GROUP A	%	TOTAL SURVEY	GROUP A	%	TOTAL SURVEY
MINING	0			1		1	0		0
CONSTRUCTION	2			2		3	0		0
MANUFACTURING	11		35	43		77	0		7
TRANS. & COMM. SERVICES	3		4	1		2	0		0
WHOLESALE TRADE	2		8	4		12	0		0
RETAIL	0		0	2		2	0		0
SERVICES	6		9	6		21	0		3
UNIDENTIFIED	0		0	0		0	3		16
TOTAL	24	39.4%	61	59	60.0%	118	3	11.6%	26

Source: Developed by Researcher

*% - (GROUP A/TOTAL SURVEY)

3. Company Sales

Group A's type of sales were reviewed and compared to the overall survey results to identify differences in the level of sales by nature of work. Table 4.3 presents the results. The Table shows that the majority of work is conducted by "manufacturing proprietary products". This is a logical statistic because Group A is primarily made up of manufacturers. The researcher found that ranking each of the groups by level of sales "nature of work" category, both Group A and the total survey results resembled one another and showed no significant variances. This indicates that Group A is a good representative of the survey population and that the companies that refuse DoD as a customer are not concentrated in one specific type of work.

TABLE 4.3		
GROUP A PERCENTAGE OF SALES BY NATURE OF WORK		
<u>NATURE OF WORK</u>	<u>GROUP A</u>	<u>TOTAL SURVEY</u>
MFG. OF PROPRIETARY PROD.	41.2%	36.3%
CONTRACT MFG. FOR OTHERS	13.1%	14.6%
CONTRACT ENG & RESEARCH FIRM	2.7%	2.5%
WHOLESALE DISTRIBUTOR	19.2%	18.1%
RETAILER	2.4%	0.8%
OTHER	21.5%	27.8%
TOTAL	100.0%	100.0%

Source: Developed by Researcher

The researcher also looked at the "percentage of sales according to customer location" for Group A and then compared the results to the entire survey population. If the researcher were to rank each of the markets for both groups, the ranking structure would be the same. Additionally the percentages for both groups were relatively close in

range. Table 4.4 shows the sales distribution of both Group A and the total survey. The similarity between Group A and the survey indicate that Group A is a good representative of the survey and consequently it cannot be shown that Group A concentrates its sales in one particular market. Further, this shows that businesses are equally discontent with DoD regardless of where they primarily focus their sales.

TABLE 4.4		
GROUP A		
PERCENTAGE OF SALES		
ACCORDING TO CUSTOMER LOCATION		
MARKET	GROUP A % OF SALES	GROUP B % OF SALES
LOCAL	20.9	21.0
REGIONAL	13.5	14.9
NATIONAL	53.4	54.7
FOREIGN	12.2	9.5
TOTAL	100.0	100.0

Source: Developed by Researcher

4. Prime Contractor Versus Subcontractor

Group A was broken down by prime and subcontractor groupings to determine if a larger portion of prime contractors or subcontractors were discontent with DoD. Figure 4.1 shows the size (measured as a percentage of the number of contractors refusing Defense business) of the "prime", "sub", "both" or "unidentified" categories for both Group B and the 1987 companies that were considered to be "out" of DoD business. The Figure indicates that the percentage for both the "prime" and "sub" groups decreased in the last 10 years. These reductions were reflected in a 15.6% increase in the group made up of "both" prime contractors and subcontractors. The researcher believes that this increase is because the "both" category includes companies that are more versatile and

adaptive (toward pursuing and accepting new opportunities that will return a reasonable profit) than those companies which limit themselves to being solely prime contractors or subcontractors. Consequently, they are less willing to seek or continue business in a non-growth market, such as DoD. This contention is further supported by (although not shown in the Figure) Group A owning 25.7% of the surveys prime contractors, 20.8% of the subcontractors and more significantly, 54.5% of "both" prime and subcontractors.

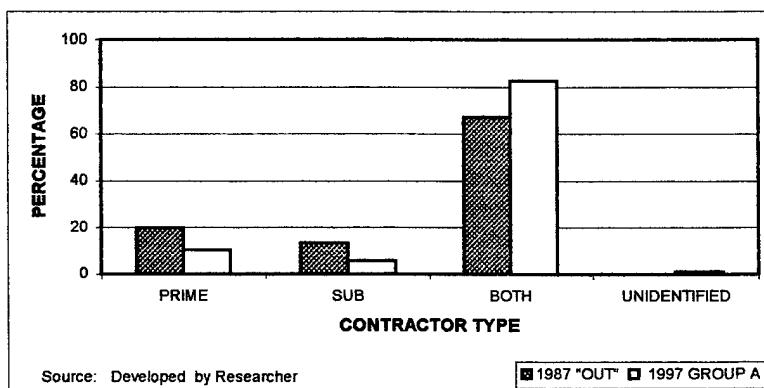


Figure 4.1 - Group A Contractor Type Comparison

5. Reasons for Unwillingness to do Business with DoD

The researcher also reviewed Group A's reasons for not wanting to do business with DoD and compared them to the concerns of the entire survey population. Group A had 80 companies that provided 154 responses to question 9. Of the 80 companies, Figure 4.2 shows the percentage of Group A companies that responded to each of the concerns and compares them to the total survey results. Appendix B provides the concern code (described as reason codes previously) definitions for each of the codes presented in Figure 4.2. The Figure illustrates that Group A felt more strongly than the total survey population for each concern, except in six different situations. These six situations are considered to be insignificant or inapplicable to Group A.

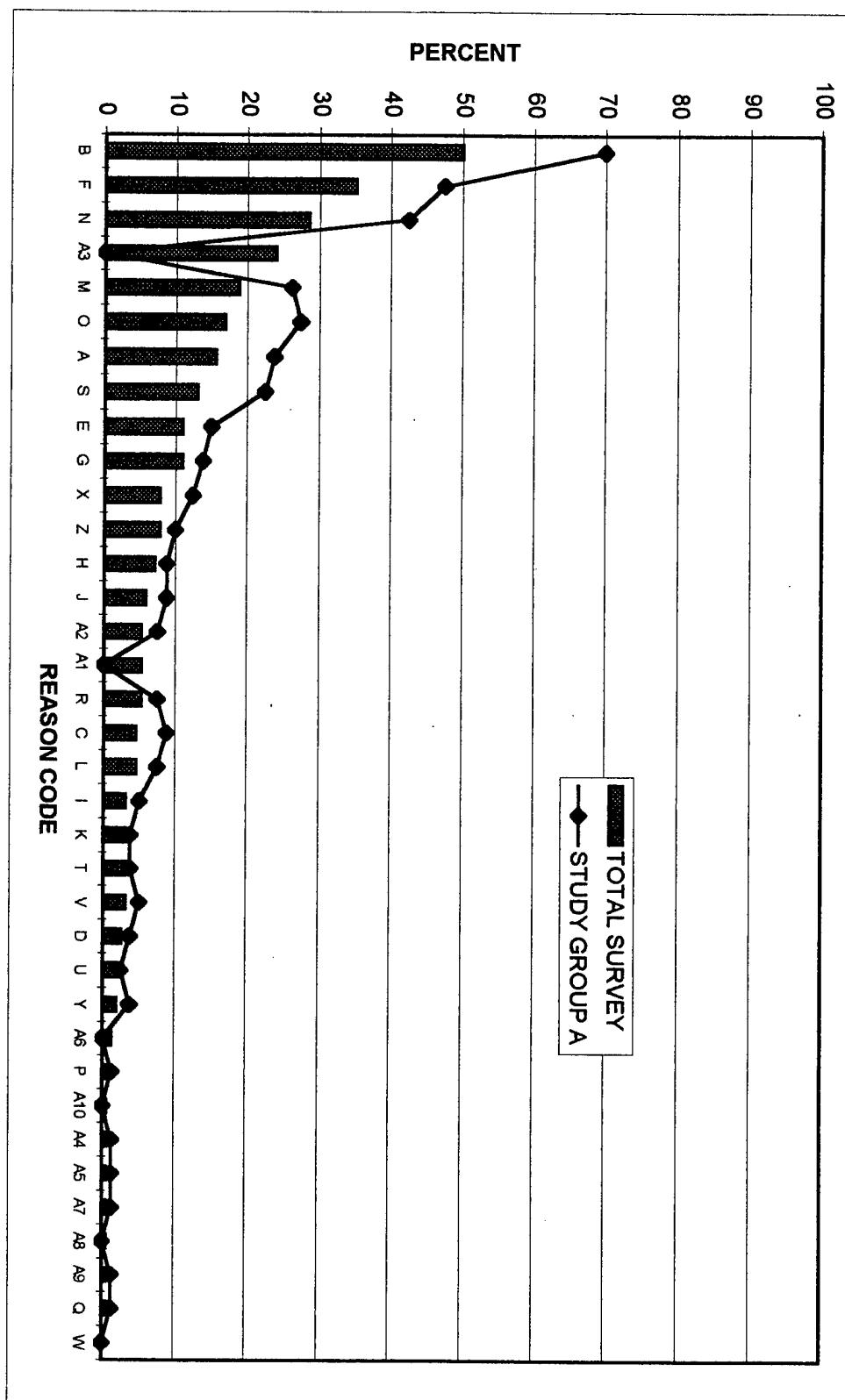


Figure 4.2 - Group A Concerns Compared to Total Survey

Group A's top five concerns are similar to those of the total population of the study, with the exception of having a non-defense related product (which is represented only in Group B). It is interesting to note that Group A's top five concerns are the same that Dr. Lamm's 1987 "out" group identified as their most serious concerns, except the 1987 study included "delays in making awards" as a top concern. However, it appears to the researcher, that in reading the respondents' comments, they were really including "delays in making awards" in the "Government bidding methods" category. Group A's top five concerns are presented below :

- Burdensome paper work;
- Government bidding methods;
- More attractive commercial ventures;
- Low profitability;
- Inflexible procurement policies.

It appears to the researcher that a Group A company is not necessarily concerned with understanding regulations or encountering difficulties in following the procurement process, but more with the overall impact the regulations have on their company and their lack of resources which make it difficult to comply with onerous paperwork requirements. Group A's most serious concerns are reflected in the following quotes provided in the survey:

- Unless you have somebody doing this paperwork all the time, it is almost impossible to keep familiar with it. It is virtually impossible to take an individual and have them fill in the necessary paperwork. If one thing is wrong, it could be weeks to clear up the matter;

- You need a library and full time people to keep up with the paperwork;
- The Government inquiries and paperwork is so extensive that it is not worth it to even quote. This encourages people to specialize in Government work who are more expert in paperwork than the product you would buy from them.

Group A's concerns for Government bidding methods are focused on two concerns. First, the companies feel that the bidding process takes too long. They feel that the onerous requirements in the solicitation requires too much time for the companies to comply with a responsive proposal and because of the page length of the proposals, the time spent in reviewing the proposals for the source selection process is excessive. The group's second concern is that they perceive the bidding methods being unfair. They believe that the Government favors small minority businesses due to the set aside provisions. Surprising to the researcher, this concern was shared by a small business. Some examples of these concerns are:

- Our bidding process of award is very fast - - - weeks, usually to closure. Government procurement is too slow for our needs;
- Our normal bidding practice is to make a simple price quote on our quote forms for a product that we define. Government bids are not that simple, so we avoid them;
- The quotation process is too time consuming and cost too much for the dollars generated. It is not uncommon for a quote to contain pages of meaningless documents;
- Government bidding methods are not effective and are unfair with minority set aside and quotes.

Although Group A respondents did not provide any comments for "inflexible procurement policies", they did provide amplifying comments for "more attractive

"ventures" and "low profitability". The latter two concerns are focused more towards the burdensome paperwork and overburdened specifications. They feel that if the Government did not force these excessive requirements on them, they could be more profitable. However, they feel that these requirements are still extremely taxing and have looked for business elsewhere.

Table 4.5 provides two different breakdowns of the top two reasons companies refuse to do business with DoD. The top portion of the Table segments Group A by large and small businesses. The bottom portion groups the companies by contractor (Ktr) type: prime contractor, subcontractor or both. The top and bottom portions are independent of each other (each portion represents 100.0% of Group A's population). Regardless of category (size of business or type of contractor) Group A companies fall into, their top concern continues to be burdensome paperwork.

TABLE 4.5						
<u>COMPANY CHARACTERISTIC</u>	GROUP A			GROUP A		
	<u>SURVEY #1 CONCERN</u>	<u>GROUP A #1 CONCERN</u>	<u>FREQ</u>	<u>SURVEY #2 CONCERN</u>	<u>GROUP A #2 CONCERN</u>	<u>FREQ</u>
LARGE BUSINESS(24)	B	B	13	N	N	8
SMALL BUSINESS(59)	B	B	42	F	F	29
UNIDENTIFIED (2)						
PRIME (9)	B	B	6	F	A	4
SUB (5)	B	B	5	F	O	2
BOTH (71)	B	B	45	F	F	33
UNIDENTIFIED (1)						
Source: Developed by Researcher						

The second most serious concern for large businesses was "more attractive ventures". This is a logical response because large businesses have more of an

opportunity to diversify their businesses and if they have problems with a customer, such as DoD, they can strategically move themselves out of that business and toward something else that will be more profitable or less "painful". Small businesses, on the other hand, tend to be forced to stay with a particular strategy, because they lack the resources to transition to another market.

The small businesses' next most important concern was "Government bidding methods". When the small businesses' comments were reviewed, the researcher found that they were focused on the use of inaccurate, outdated and onerous specifications required in the solicitation document. This view is demonstrated by two representative comments from the small businesses:

- Typically, design of tank projects has often been done by architect/engineers who are not that familiar with tanks. In the bid stage, you cannot point out ineffective designs or offer comments on bid documents, or if you do, you are considered to be non-responsive;
- Military specifications for thread locking adhesives are 50 years behind the times and it impossible for us to comply to those specifications.

The prime contractors identified their second most serious concern as late "payment or nonpayment". This concern logically corresponds to the prime contractor group. The prime contractor is the one who is responsible for paying his bills, including his subcontractors. One prime contractor reported that it took him nearly three years to get paid completely. Although, this occurred in the 1980's, this stigma still haunts the Defense procurement system. If the Government is late or rejects their invoices (for insignificant reasons) as they have claimed, the prime contractor cannot pay his bills and is put at risk of losing his subcontractor as well as his business.

The number of subcontractors in this group was represented by only five companies. It is therefore, difficult to determine the second most serious concerns since only two companies responded with concerns outside of burdensome paperwork. The "both" prime contractor and subcontractor group identified "Government bidding methods" as their second most serious concern. The companies in this group were primarily looking at the Government's use of onerous military specifications and unfair practices during the bidding process (the same focus as small businesses). Some amplifying comments are provided below:

- We sell sand for sand blasting (abrasives). There are too many requirements to meet for a sand that does not require a lot of specifications;
- There is a core group of architects and interior designers that receive the majority of the work. I was told once by a procurement officer that we would need to submit from six to ten proposals so we could learn the process and that the reviewing officers start to become familiar with our name. . . that was over 10 years ago and we have not tried since.

The comments provided above concerning onerous specifications and unfair bidding practices seem to be a common thread for small businesses and "both" prime and subcontractors. The researcher suggests that "off the cuff" comments (such as having to submit ten proposal before a company will be considered for selection) are detrimental to DoD in two ways. First, companies immediately direct their efforts elsewhere and second, they spread the "word" to other companies of how unfair the Government's bidding practices are. A comment such as the one provided above will continue to impact the company it was directed at, other companies with whom this company communicates, and the diminishing size of the industrial base.

Table 4.6 identifies the top two concerns for each of the major industries.

TABLE 4.6				
GROUP A MAJOR INDUSTRIES TOP CONCERNS				
MAJOR INDUSTRY	TOP REASON	FREQ.	NEXT REASON	FREQ.
MINING	ONEROUS SPECIFICATIONS	1	BURDENSOME PAPERWORK	1
CONSTRUCTION	BURDENSOME PAPERWORK	3	SET ASIDES FOR SMALL BUS.	2
MANUFACTURING	BURDENSOME PAPERWORK	37	GOVT BIDDING METHODS	22
TRANS. & COMM SERV.	MORE ATTRACTIVE VENTURES	3	LATE OR NONPAYMENT	2
WHOLESALE	BURDENSOME PAPERWORK	4	GOVT BIDDING METHODS	3
RETAIL	BURDENSOME PAPERWORK	1	NA	
SERVICES	GOVT BIDDING METHODS	9	MORE ATTRACTIVE VENTURES	13
UNIDENTIFIED	BURDENSOME PAPERWORK	1	GOVT BIDDING METHODS	1

Source: Developed by the Researcher

Each major industry cited burdensome paperwork, Government bidding methods, more attractive ventures and onerous specifications as either their first or second concern, all of which were cited as the primary and secondary concerns for the survey results. It should be noted, however, that all of the industries, with the exception of manufacturing and services, had fewer than five responses and subsequently could not be used to identify significant trends for each particular industry.

The manufacturing industries' most serious concern was "burdensome paperwork" and its second most serious concern was "Government bidding methods". These top two concerns are the same for all of the survey respondents. This is logical because manufacturing comprised 58.1% of the respondents. Based on the amplifying comments, this industry is mostly critical of the tremendous commitment in terms of resources and paperwork as well the amount of time, energy and money that is dedicated toward the bidding process. They feel that the Government bidding methods require an

exorbitant amount of labor and expertise to appropriately respond to the solicitation.

Given this, the risk of not winning and all efforts and investments being lost, they have opted to pursue other interests.

The services industry was concerned primarily with "Government bidding methods" and secondarily with "more attractive commercial ventures". Companies within this industry commented that bidding on Defense contracts involved too much paperwork, time and money. One company stated, "a competitive bid would have cost more than the profit on the job. A company spends countless hours and incurs unnecessary costs to have personnel develop competitive bids and is often not worth the effort". Because of the added burden caused by Government requirements in the bidding process, the services industry is pursuing business outside of DoD because it is more attractive. The bidding process is quicker and simpler and in turn they can get more work with more profit. Additionally, in 1996, the Office of Federal Procurement Policy established Federal policy for agencies to contract out services that are not inherently Governmental functions [Ref. 4:p. 1]. The researcher contends that because there has been an influx of contracting services in DoD, there is a tendency that the services contractors are providing a services that was once provided in the commercial sector. As a result, when the service contractors become discontent with DoD business, it is easier for them to make the transition back to the commercial sector.

The last reason why the services industry sees the commercial sector as more attractive is because many of the Government contracts for services are solicited through invitation for bids (IFB). One company commented that they had a top quality security

service and consequently had higher bids than their competitors. So, although he has a better quality service, he can not win a Government contract because he always has the higher bid. He can, however, obtain business in the commercial sector by retaining his price and maintaining his profit margin.

Group A's reasons for not doing business with DoD were segmented using the taxonomy presented in Chapter III and shown in Table 3.15. Table 4.7 provides the results of the taxonomy breakdown. The predominant phase of the acquisition cycle for both the overall results and Group A was the pre-award cycle. In fact, the breakdown for each of the three phases were almost proportionally identical for both the entire population and Group A. This comparison is logical because Group A was the largest group in the study and its concerns should dominate the overall survey results. When the researcher broke down the responses in relation to the basis of the decision, they were almost equally distributed between the "procurement decision", "Government decision" and "pervasive throughout all phases", however, the "pervasive throughout all phases" had four more responses than the responses in the "procurement process" category. Although the rankings were not the same for the survey population and Group A, the proportional sizes were very close and prevented the researcher from identifying any significant differences between the survey and Group A.

6. Protests and Claims

The number of filed protests and claims and the subsequent rulings were reviewed for Group A and then compared to the overall survey results. The comparison was made to determine if protests and claims had a significant impact on Group A respondents'

TABLE 4.7

GROUP A
DISTRIBUTION OF REASONS CITED BY 86 FIRMS ANSWERING
QUESTION 9 WITHIN TAXONOMY

CATEGORY	PHASES		
	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS TOTAL = 103 PERCENT = 31.8% TOTAL SURVEY % = 30.0%	F=38 I=4 <u>L=6</u> TOTAL = 48	G=11 TOTAL = 11	D=3 U=2 L=6 J=7 H=7 <u>A=19</u> TOTAL = 44
GOVERNMENT DECISION TOTAL = 19 PERCENT = 5.8% TOTAL SURVEY % = 4.6%	C=7 Q=1 <u>V=4</u> TOTAL = 12	A6 = 0 TOTAL = 0	K=3 P=1 W=0 Y= 3 TOTAL = 7
CONTRACTOR DECISION TOTAL = 95 PERCENT = 29.4% TOTAL SURVEY % = 33.3%	E=12 M=21 N=34 R=6 X=10 Z= 10 A1=0 A3=0 A7=1 <u>A9=1</u> TOTAL = 95		N/A N/A
PERVERSIVE THROUGHOUT ALL PHASES TOTAL = 107 PERCENT = 33.0% TOTAL SURVEY % = 32.1%	B=56 O=22 S=18 T=3 A2=6 A4=1 A5=1 A8=0 <u>A10=0</u> TOTAL = 107		
TOTAL = 324	TOTAL = 190.67 PERCENT = 58.8% TOTAL SURVEY % = 60.7%	TOTAL = 46.67 PERCENT = 14.4% TOTAL SURVEY % = 14.0%	TOTAL = 86.67 PERCENT = 26.8% TOTAL SURVEY % = 25.3%

Source: Developed by Researcher

attitude toward wanting to do business with DoD. However, only 12 protests (5.9% of 205 respondents) and four claims (1.95%) were filed for the survey it makes it impossible for the researcher to determine a correlation between the number of protests and claims filed and a company's willingness to participate in DoD business. However, it is interesting to note that the protest filed by one company from Group A (no claims were filed) was denied.

7. Reasons for Becoming a Defense Contractor

Sixty-eight firms from Group A responded to question 16, indicating whether they had become a Defense contractor in the last 10 years. Of the 68 firms, 12 companies answered "yes", they had become a Defense contractor since 1987. The 12 companies provided 15 responses as to why they initiated the move toward Defense business. Group A's responses are provided in Table 4.8.

TABLE 4.8			
GROUP A			
REASONS WHY COMPANIES BECAME DEFENSE CONTRACTORS IN LAST TEN YEARS			
REASON	FREQ.	%	
NON-ACQN. REFORM REASONS 60%	SMALL BUSINESS SET ASIDE NEW DEFENSE BUSINESS GOVT ASKED OPPORTUNITY EXISTED MORE OPPORTUNITIES THAN COMM.	4 2 1 1 1	26.7 13.3 6.7 6.7 6.7
REASONS ATTRIBUTED TO ACQN. REFORM 40%	LESS PAPERWORK LESS MIL SPECIFICATIONS COST AND PRICING DATA NEW DEFINITION OF COMM. ITEM POST AWARD DEBRIEFS PAST PERFORMANCE EMPHASIS EC/EDI OTHER ACQN. INITIATIVES	1 1 1 1 1 1 0 0	6.7 6.7 6.7 6.7 6.7 6.7 6.7 6.7
*Does not add up due to rounding Source: Developed by Researcher		TOTAL 15	*100.0

The Table shows that businesses are taking advantage of the small business set-asides. This corresponds with the small businesses being the dominant stakeholder of this group. The researcher also broke up the responses into those reasons that were attributed to acquisition reform and those reasons that were not. Table 4.8 also shows the how the reasons were distributed. Although there were only 15 responses, it is interesting to note that 60.0% of the responses referred to reasons other than those that can be attributed to acquisition reform. It appears to the researcher that acquisition reform does not significantly impact peoples' decisions when determining the direction of their company's future.

Fifty-one companies from Group A responded to question 15 regarding the conditions that would have to exist for them to become a Defense contractor. The fifty-one responses were categorized into nine conditions. Table 4.9 provides the breakdown of the conditions, the number of firms responding to each condition and the corresponding percentage of the responding companies for Group A.

TABLE 4.9		
CONDITIONS GROUP A WOULD BECOME A DEFENSE CONTRACTOR		
CONDITIONS	FREQ.	%
USE COMMERCIAL SPECS.	13	25.5
CHANGE BIDDING REQUIREMENTS	9	17.6
ENSURE PAYMENTS ON TIME	7	13.7
REDUCE THE PAPERWORK	4	7.8
REASONABLE PROFIT	3	5.9
REALISTIC QALITY CONTROL STDS.	2	3.9
JUST ASK	2	3.9
ELIMINATE MINORITY SET ASIDE	1	2.0
REDUCE THE GOVT OVERSIGHT	1	2.0
NO POSSIBLE WAY	9	17.6
TOTAL	51	100.0

Source: Developed by Researcher

The majority of respondents (25.5%) for question 15, replied that they would participate in Defense business if DoD would use "commercial specifications and standards". Although this was not specifically included in the reasons why Group A refused Defense business, it was intertwined in the top two responses. For example, several of the respondents' comments referred to "burdensome paperwork" as a concern for the onerous specifications used by DoD. "Government Bidding Methods" was often referred to as military specifications being outdated, incorrect and burdensome. The companies that identified "change the bidding requirements" as a condition of entering the Defense business, focused on expediting the bidding process by reducing needless requirements that have historically caused solicitations and proposals to be excessive in length. Some respondents stated that although they did not have a problem with the use of military specifications, they would only participate in Defense business if the specifications were written by a knowledgeable and experienced person within their industry. The following comments reflect these attitudes:

- A fast painless method of getting through a sales cycle in three to four months with "normal" resources;
- If we could bid an RFP (Request for Proposal) fast;
- When practical people that understand the requirement of the item being purchased and reflect that requirement in the solicitation;
- Knowing that we could bid on equal bases with all other bidders;
- Reduce the bidding requirements so that we could respond in less than 20 pages.

The third condition that was cited by 13.7% of the respondents stated they would only do business with DoD if all payments were made on time. This was surprising to the researcher because "late payment or nonpayment" was ranked only sixth of the concerns of why firms refuse Defense business. The researcher also anticipated "reasonable profits" would have been ranked at least third for the conditions of entrance because both "low profitability" and "more attractive commercial ventures" were ranked in the top five concerns for this Group.

It is worth noting that 17.6% of the companies stated that there is nothing that DoD could do to persuade them to enter Defense business. This is a significant number of companies that are unreachable as a part of the Defense industrial base. However, there is still 82.4% of this group that DoD can concentrate its efforts toward in future acquisition reform.

C. SUMMARY

In summary, Group A consisted of a large portion of the entire survey. Almost 42.0% of the entire population is discontent with Defense procurement, that it has resulted in directing their business ventures outside DoD. As a result of Group A being the predominant stakeholder of the Survey, it had many subgroupings with similar results in the overall survey. The following provides examples of the similarities between the entire survey population and Group A:

- Small businesses dominated;
- Manufacturer of proprietary products consisted of most of the sales;

- The majority of the companies sales were generated from the national market;
- Most companies consider themselves prime contractors and subcontractors;
- The primary concern for companies is burdensome paperwork;
- The pre-award phase consisted of more than 50.0% of the concerns;
- The majority of the companies became Defense contractors within the last ten years is due to reasons unrelated to acquisition reform.

Group A's top five concerns (in order of ranking from most important to less important) were burdensome paperwork, Government bidding methods, more attractive commercial ventures, inflexible procurement policies and low-profitability. When the group was subcategorized in several different ways, burdensome paperwork and Government bidding methods consistently prevailed as the top two concerns. Keeping in mind that Group A was the largest group of the survey, these concerns are key future acquisition reform targets.

V. COMPANIES THAT DO NOT REFUSE TO CONDUCT BUSINESS WITH DoD

A. INTRODUCTION

Chapter IV explored the most significant group of this study, Group A, consisting of firms that refuse to do business with DoD or intend to leave the Defense business. However, companies outside of Group A provided significant input and warrant review. This chapter examines those respondents in categories other than A: Groups B, C and D. Group B represents those firms that do not have business with DoD because they do not know how to seek such business or have a product that they believe is not defense related. Group C, includes those firms that currently have Defense business and plan to stay with DoD, but have concerns with the procurement system. Lastly, Group D represents firms that are currently involved with Defense contracting and plan to continue with such business and did not indicate they had any concerns with DoD as a customer. The researcher conducted analysis of Groups B, C and D in a manner similar to that of Group A and has provided the results in the following pages of this chapter.

B. GROUP B

Group B consisted of 45 companies (almost 22.0% of the entire survey population) who are not currently participating in Defense business. Their nonparticipation is due primarily to a lack of information vice problems with Defense procurement policies or procedures. Group B reasons for not participating in Defense business were grouped into two categories: 1) the company believes they do not have a product that is needed by DoD; or 2) the company does not know how to get into Defense

business. The number of companies in Group B is significant when compared to the 1987 study. Dr. Lamm's study does not indicate that there were any companies that identified these as reasons for not doing business with DoD. It appears to the researcher that the large amount of companies that lack information on entering the Defense business, could have a negative impact on the purchase of products and services where there is not sufficient competition.

1. Major Industries

Group B consisted of four major industries: construction, manufacturing, wholesale and services shown in Table 5.1.

TABLE 5.1				
GROUP B MAJOR INDUSTRIES				
INDUSTRY GROUPING	NUMBER OF FIRMS	GROUP B PERCENT OF GROUP	PERCENT OF INDUSTRY	OVERALL SURVEY NUMBER OF FIRMS
MINING	0	0.0	0.0	1
CONSTRUCTION	2	4.4	25.0	8
MANUFACTURING	14	31.2	11.7	119
TRANS. & COMM. SERVICES	0	0.0	0.0	6
WHOLESALE	6	13.3	30.0	20
RETAIL	0	0.0	0.0	2
SERVICES	12	26.7	36.3	33
UNIDENTIFIED	11	<u>24.4</u>	68.8	16
TOTAL	45	100.0	21.9	205

Source: Developed by Researcher

Eleven companies (24.4% of Group B) could not be categorized into a major industry because a SIC code was not provided or could not be determined by the researcher. Manufacturing, comprising 31.2% of Group B respondents and 11.7% of the entire survey's manufacturing population, was the largest major industry. Services was the

second largest industry, comprising 26.7% of the Group and 36.3% of its industry population. Although Group B's wholesale industry comprised 13.3% of the entire group's population, it consisted of 30.0% of the industry. These are logical proportions because the manufacturing, service and wholesale industries were the largest for the total survey and is reflected in Group B's industry size. A large proportion of companies could not be identified because these companies provided very little information on the survey except why they were not involved with Defense business.

2. Company Size

The researcher compared number of small businesses in Group B to that of the entire Survey. These results are shown in Table 5.2.

TABLE 5.2									
GROUP B									
MAJOR INDUSTRY BROKEN DOWN BY SMALL AND LARGE BUSINESSES									
MAJOR INDUSTRY GROUP	LARGE BUSINESS			SMALL BUSINESS			UNIDENTIFIED		
	GROUP B	%	TOTAL SURVEY	GROUP B	%	TOTAL SURVEY	GROUP B	%	TOTAL SURVEY
MINING	0		0	0		1	0		0
CONSTRUCTION	1		5	1		3	0		0
MANUFACTURING	2		35	6		77	6		7
TRANS. & COMM. SERVICES	0		4	0		2	0		0
WHOLESALE TRADE	1		8	5		12	0		0
RETAIL	0		0	0		2	0		0
SERVICES	0		9	9		21	3		3
UNIDENTIFIED	0		0	0		0	11		16
TOTAL	4	7%	61	21	18%	118	20	77%	26

**% - (GROUP B/TOTAL SURVEY)

Source: Developed by Researcher

The Table shows that Group B consists primarily of small businesses. The group has 21 small businesses, 17 more than large businesses. Additionally, the Table shows that 7.0% of the large businesses and 18.0% of the small businesses in the overall survey belong to Group B. The researcher contends that the small businesses are key players in this group because they have limited resources available for learning about the proper

procedures for entering into Government procurement and/or determining if they have a marketable product for DoD.

3. Company Sales

The researcher reviewed Group B's sales from two perspectives: type of sale and location of sale. It should be noted that for both analysis 15 companies (33.3% of Group B's population) did not respond to each of these areas. This is a significant portion of the Group and reduces the validity of any conclusions.

Table 5.3 shows the group's "percentage of sales by nature of work". Group B consisted predominantly of firms who generated their sales based on "manufacturer of proprietary products", which mirrored the total survey results. However, there was one major inconsistency between the two groups. Group B consisted of 10.4% more companies that categorized their nature of work as "other". As noted in Chapter III, "other" is primarily driven by sales generated by services. This corresponds with Table 5.1 showing that the "services" companies are part of the second largest industry for Group B.

TABLE 5.3		
GROUP B		
PERCENTAGE OF SALES BY NATURE OF WORK		
NATURE OF WORK	TOTAL SURVEY % OF SALES	GROUP B % OF SALES
MFG. OF PROPRIETARY PRODUCTS	41.2	40.8
CONTRACT MFG. FOR OTHERS	13.0	2.9
CONTRACT ENG. & RESEARCH FIRM	2.7	0.2
WHOLESALE DISTRIBUTOR	19.2	23.7
RETAILER	2.4	0.5
OTHER	<u>21.5</u>	<u>31.9</u>
	TOTAL	100.0
Source: Developed by researcher		

Table 5.4 reflects Group B's percentage of sales according to customer location and compares it to the overall survey results. The national market was the major sphere of sales for Group B. It contributed to 51.3% of the group's sales which was significantly close to the percentage of sales for the overall survey (53.4%). The remaining location of sales correlated with the total survey population results. The similarity between the two groups, indicates to the researcher that this group does not concentrate its sales toward one particular market.

TABLE 5.4		
GROUP B PERCENTAGE OF SALES ACCORDING TO CUSTOMER LOCATION		
<u>MARKET</u>	<u>TOTAL SURVEY % OF SALES</u>	<u>GROUP B % OF SALES</u>
LOCAL	20.9	21.9
REGIONAL	13.5	15.9
NATIONAL	53.4	51.3
FOREIGN	12.2	10.9
TOTAL	100.0	100.0

Source: Developed by researcher

4. Prime Contractor Versus Subcontractor

The researcher divided Group B into contractor types depending on how each company answered question 8 of the survey. Each company in Group B could have been categorized as either a "prime contractor", "subcontractor", "both" a prime and a subcontractor or "undetermined". The last category was established because the researcher was not provided sufficient data to make a determination. Group B's breakdown and comparison to the survey results can be seen in Table 5.5. The major stakeholders were primarily the prime contractors and "both" prime and subcontractors.

The number of subcontractors was only represented by two companies or 8.3% of all the survey's subcontractors. The researcher believes this is because the subcontractors don't really pursue DoD business, so they would not have typically answered the question to number 9 as not knowing how to pursue DoD business or not having a Defense related product or service. They are more inclined to obtain business regardless of who the prime contractor or ultimate contractor is. A total of 15 out of 16 (93.8%) of the possible companies that could not be determined were represented in Group B.

TABLE 5.5				
GROUP B BREAKDOWN OF PRIME AND SUBCONTRACTORS				
CONTRACTOR TYPE	SURVEY NUMBER OF FIRMS	GROUP B		
		NUMBER OF FIRMS	PERCENT OF GROUP B	PERCENT OF SURVEY'S KTR TYPE
PRIME	35	6	13.3	17.1
SUB	24	2	4.4	8.3
BOTH	130	22	49.0	16.9
UNDETERMINED	16	15	<u>33.3</u>	93.8
TOTAL	205	45	100.0	21.9

Source: Developed by Researcher

5. Reasons For Not Doing Business With DoD

Group B represented those companies that were not participating in Defense business because they did not know how to enter into such a venture or they felt their product or service was not suited for Defense needs. Eight companies (3.9% of the total survey population) stated that they were not involved in Defense business because they did not know how to enter into such a venture. The researcher received several letters from the respondents indicating they had tried to pursue the Government market by going

to trade shows and providing the Government with business cards, but were never contacted by Government representatives for their product or service. There were also companies that had no idea how to even start the process of contracting with the Department of Defense. The researcher can only speculate, but feels that this could be attributed by three causes: a) the company lacks the resources to seek out the proper procedures for entering into Government procurement; b) the Government is not adequately publicizing its bidding methods to the public; or c) the company feels that handing out business cards is sufficient effort, and the rest is up to the Government to approach the company for their requirement. The researcher contends that this lack of information is probably a combination of all three, but primarily focused toward a lack of available resources within the company. Twenty-five companies in Group B could be categorized as a small or large business. Of the 25 companies, 84.0% were considered to be small businesses. The researcher contends that small businesses tend to lack both financial and personnel resources dedicated toward seeking new ventures. With this in mind, the researcher believes that a company's lack of resources in seeking out the proper procedures would be the leading cause for this lack of knowledge.

Thirty-seven companies or 18.0% of the entire population, identified themselves as having a product or service that did not suit DoD's requirements; therefore, they did not have any intention of pursuing such business because of this perception. The companies' product descriptions, provided in question 1A of the survey, were reviewed by the researcher for Defense applicability. A list of Group B's product descriptions are located in Appendix C. Based on the limited information provided in the companies'

product descriptions, the researcher's cursory review found 80.0% of the products or services to be possible candidates for selling to DoD. As mentioned previously, Group B is dominated by small businesses. The small business population in Group B increases the probability that it is their lack of available resources that prevent them from obtaining the information about Defense requirements.

6. Conditions For Becoming a Defense Contractor

Respondents of Group B have never been Defense Contractors and therefore, did not answer question 16 of the survey concerning the reasons they entered into the Defense business. However, the researcher reviewed Group B's responses to question 15, "under what conditions would you consider participating in Defense business?" Six companies responded to this question. They answered with similar concerns to this question as they did in their response to question 9, "tell us how to participate in the Defense business" and "there is a need for our product or service." However, two of the responses (20.0%) indicated that the respondents had a perception of DoD being unfair in the bidding and/or award process, which was also evident in Group A's comments. The following are representative comments for Group B:

- If there was a need for the services we provide;
- If there was a Web site that provided a listing of DoD's needs and points of contact;
- If we knew of requirements that would fit us and we had a decent chance of winning;
- I would get involved if I had the chance;

- If I knew where to begin seeking Defense Business;
- If the Defense would tell us how to get into business with DoD.

7. Summary

In summary, a significant portion (almost 22.0%) of the survey's population responded that they did not have any business with DoD due to either a lack of knowledge concerning procedures in gaining access to Government procurement or they felt their product or service was unrelated to Defense needs. This segment of the survey was not found in the 1987 study which indicates it was not a significant reason for non-participation in Defense business 10 years ago.

It appears that a portion of the industrial base is not being utilized due to companies having a lack of knowledge concerning Defense requirements and procurement policies and procedures. Even though the reasons provided by Group B do not represent problems with DoD procurement, the impact of the reasons still have a reducing affect on the Defense industrial base because companies are not participating. The lack of Group B's participation (22.0% of the population) can impact DoD in two ways. First, the Government may be paying a higher price than necessary because there may not be adequate competition for the non-participating companies' products or services. Second, their non-participation may prevent DoD from having surge capabilities during war and other emergency situations. Although these reasons are really not part of this study, it is important to note that there is a significant portion of the population that Defense procurement cannot use in procuring goods and services because

of a lack of knowledge by the companies. The researcher contends that if DoD publicized the opportunities available to companies, they could reach this population.

C. GROUP C

Group C consisted of 30 companies, 14.6% of the survey responses. This group is the smallest segment of the survey. Group C represents those companies that are currently doing business with DoD and intend to continue to do so, but answered question 9 indicating they had concerns with Defense procurement. Additionally, when this group was compared to the same group in the 1987 study (called the "IN" group), it is now significantly smaller [Ref. 10:p. 70]. The 1987 study revealed that 28.6% of the firms planned to stay in business with DoD but had some concerns. It appears that although this group may have gone down by fourteen percentage points, the companies who were planning to remain in business with DoD in 1987 may have changed their minds and are now represented in Group A, those companies that refuse to do business with DoD. One additional point should be made. Although this group may be the smallest of the 1997 study, it is important to consider their concerns because they are potential candidates for leaving the Defense industrial base if their concerns are not adequately addressed. The following pages provide a breakdown of Group C's data and corresponding analysis.

1. Major Industries

Group C comprises six of the eight major industries that were represented by all of the respondents in this survey. Table 5.6 shows the size of each industry.

TABLE 5.6				
GROUP C MAJOR INDUSTRIES				
INDUSTRY GROUPING	GROUP C			OVERALL SURVEY
	NUMBER OF FIRMS	PERCENT OF GROUP C	% OF INDUSTRY	NUMBER OF FIRMS
MINING	0	0.0	0.0	1
CONSTRUCTION	1	3.3	12.5	8
MANUFACTURING	19	63.3	15.9	119
TRANS. & COMM SERVICES	1	3.3	16.7	6
WHOLESALE	2	6.7	10.0	20
RETAIL	0	0.0	0.0	2
SERVICES	5	16.7	15.1	33
UNIDENTIFIED	2	6.7	12.5	16
TOTAL	30	100.0	14.6	205

Source: Developed by Researcher

The largest industry for Group C is manufacturing, making up 63.3% of the group's population. Additionally, Group C's manufacturing companies comprised 15.9% of entire survey's manufacturing population. Services was the next largest stakeholder for the group, consisting of 16.7% of the industry's population and 3.3% of the group's population. These statistics correlate with the manufacturing and services industries as the largest industries in the survey. The remaining industries were construction, transportation, and wholesale all of which consisted of five or less companies. The small number of companies in these industries makes it impossible for the researcher to draw any conclusions other than they are not a significant portion of Group C. It should be noted that there were two companies in this group whose major industry could not be determined.

2. Size of Business

The researcher looked at the number of small and large businesses for each industry and then as an entire group for Group C. Small businesses comprised 56.7% of

the group's population. This directly corresponds with the overall survey result comprising 57.6% of small businesses. The large businesses for Group C were owned by 36.7% of the companies, which was slightly higher than the entire survey result of 29.8%. The increase in proportional size of large business is partly attributed to Group C having very few of the survey's companies that could not be identified (as a large and small business). As a result, the proportional sizes of small and large businesses for Group C, were relatively close to that of the entire population. Table 5.7 shows that 18.0% of the large businesses, 14.4% of the small businesses and 7.6% of the unidentified companies in the survey belonged to Group C. The percentage of small and large businesses for Group C are proportionally very close in size. As a result, it appears that companies that continue to do business with DoD, but have concerns, are not dominated by small or large businesses because they are such a close representative of the entire survey.

MAJOR INDUSTRY GROUP	LARGE BUSINESS			SMALL BUSINESS			UNIDENTIFIED		
	GROUP C	%	TOTAL SURVEY	GROUP C	%	TOTAL SURVEY	GROUP C	%	TOTAL SURVEY
MINING	0		0	0		1	0		0
CONSTRUCTION	1		5	0		3	0		0
MANUFACTURING	7		35	12		77	0		7
TRANS. & COMM. SERVICES	1		4	0		2	0		0
WHOLESALE TRADE	1		8	1		12	0		0
RETAIL	0		0	0		2	0		0
SERVICES	1		9	4		21	0		3
UNIDENTIFIED	0		0	0		0	2		16
TOTAL	11	18.0%*	61	17	14.4%*	118	2	7.6%*	26

Source: Developed by Researcher

*% - (GROUP B/TOTAL SURVEY)

3. Company Sales

Group C was looked at from two different perspectives while conducting the analysis. The researcher looked at the group's distribution of sales based on nature of work and location. Table 5.8 illustrates the percentage of sales by the nature of the companies' work. In comparison to the entire survey, most of the categories proportional size is relatively close. However, there is one significant difference. The category "other" nature of work for Group C decreased by nearly half of the percentage points (when compared to the overall survey results), from 21.5% to 10.3%. The decrease was compensated in two other areas, manufacturer of proprietary products (which was the largest category) and retailer. As discussed in Chapter III, the majority of the "other" nature of work is dedicated primarily to services. This corresponds with Table 5.6 indicating that only 2.3% of the services industry was represented in Group C. The researcher contends that companies who provide a service are more apt to leave the Defense business than companies that produce a product because they have more flexibility that allows them to do so. This flexibility is derived from having a dual use service, one that can be used by both the Defense and Commercial sectors. In support of this contention, the Defense has recently experienced a push to outsource functions that are not inherent to the Government [Ref. 4:p. 1]. The new companies are more inclined to have a dual purpose service because they are coming from the commercial sector. Consequently, when the service industry experiences problems in the Defense business, such as burdensome paperwork, they can more easily make the transition back over to the commercial sector because they have a dual use product.

Therefore, the services industry is more inclined to have been in Group B where they were either out or intending to get out of the Defense industry.

TABLE 5.8		
GROUP C PERCENTAGE OF SALES BY NATURE OF WORK		
<u>NATURE OF WORK</u>	GROUP C <u>% OF SALES</u>	TOTAL SURVEY <u>% OF SALES</u>
MFG. OF PROPRIETARY PRODUCTS	45.1	41.2
CONTRACT MFG. FOR OTHERS	13.1	13
CONTRACT ENG. & RESEARCH FIRM	6.3	2.7
WHOLESALE DISTRIBUTOR	19.2	19.2
RETAILER	6.0	2.4
OTHER	<u>10.3</u>	<u>21.5</u>
TOTAL	100.0	100.0

Source: Developed by researcher

Table 5.9 is the "percentage of sales according to customer location". The proportion of sales per location Group C was very close to the survey result. The Table shows that both groups had slightly over 50.0% of their market generated by the National market and the least amount of sales generated by the foreign market.

TABLE 5.9		
GROUP C PERCENTAGE OF SALES ACCORDING TO CUSTOMER LOCATION		
<u>NATURE OF WORK</u>	TOTAL SURVEY <u>% OF SALES</u>	GROUP C <u>% OF SALES</u>
LOCAL	20.9	21.9
REGIONAL	13.5	15.9
NATIONAL	53.4	51.3
FOREIGN	<u>12.2</u>	<u>10.9</u>
TOTAL	100.0	100.0

Source: Developed by researcher

Due to the closeness of percentages, the researcher suggests that Group C's percentage of sales are indicative of the entire population and therefore, the researcher was unable to draw any correlation between a companies sales market and doing business with DoD.

4. Prime Contractor Versus Subcontractor

The researcher compared the number of companies in each prime contractor and subcontractor category: 1) prime contractor; 2) subcontractor; 3) both; or 4) unidentified. She measured the categories as a percentage of the Group's population. Group C was then compared against the 1997's total survey population and Group C's 1987 counterpart (identified as those staying "IN") [Ref. 10:p. 70]. The results of this comparison are provided in Figure 5.1 The Table illustrates that the proportional size of the contractor type groupings for the 1997 overall results and 1987 study's "IN" group are very similar. However, Group C shows a significant increase in prime contractors over the other two groups. This increase is reflected in the decrease in Group C's "both" prime and subcontractor category. As discussed in Chapter IV, the researcher believes that companies in the "both" category are more versatile and willing to pursue new opportunities where potential growth exists. The Table shows that the percentage of the "both" category has declined since 1987. The researcher suggests that this has occurred because the Defense market is no longer growing as it once was in the early to mid 1980's. The researcher speculates that the 1997 "both" companies have now left DoD and gone to pursue opportunities in market with greater growth potential. As a result, the reduction in Group C's "both" category between 1997 and 1987 are now represented in Group B.

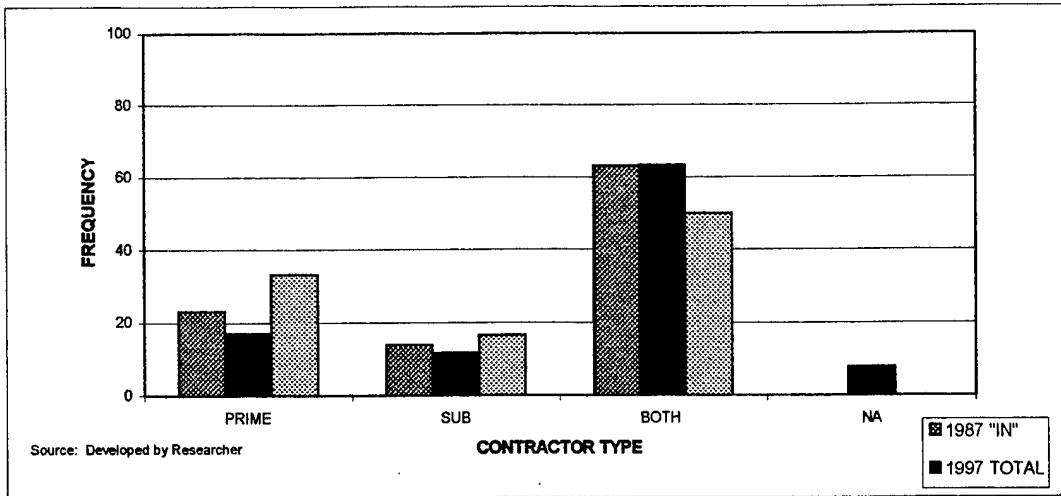


Figure 5.1 - Group C Contractor Type Comparison

5. Concerns For Doing Business with DoD

The researcher analyzed Group C's concerns for doing business with DoD.

Although Group A is the focus and the largest stakeholder of this study, the concerns for Group C should not go unnoticed for two reasons. First, as mentioned previously in this chapter, Group C respondents are potential candidates for Group A (becoming so discontent with DoD procurement, they leave the Defense business altogether). Second, this group's concerns are not biased by hearsay or experiences from 10 years ago, as seen in several of comments from Group A respondents. Group C's concerns reflect what is happening today. Consequently, it is more effective for the Defense to target the concerns of today vice concerns based on hearsay or experiences that no longer apply in today's acquisition environment.

The researcher looked at Group C's concerns from four perspectives to determine the focus of each subcategory of Group C. The results of this analysis are provided in the next several paragraphs of this section.

The top five concerns of Group C all received responses by more than 20.0% of the companies. The following reflect those concerns (from most serious to less serious):

- Burdensome paperwork;
- Government bidding methods;
- More attractive ventures;
- Low profitability;
- Delays in making awards.

The above comments are the same as the overall survey results with the exception of "delays in making awards" which was listed tenth for the overall survey but listed fifth for Group C.

The researcher contends that Group C respondents have more attractive ventures and low profitability as their top concerns because they have such a financial commitment in their Defense operation that pursuing other commercial ventures is not a viable option.

Group C's main concern with burdensome paperwork is geared toward the onerous requirements placed in solicitations and the amount of effort needed to comply to those specifications. The following are examples of Group C respondent's comments concerning overtaxing paperwork requirements:

- Two hundred dollar purchase order and approximately 10,000 pages of documents that needed to be reviewed to determine if we complied with all of the applicable laws;
- The amount of documentation required for small purchases can be extreme. Example: We recently bid a \$25,000 job. This required a

proposal, best and final offer, negotiation, and several document submittals. We did not get the job, but invested about \$4,000 going after it. The same work can be obtained commercially with a two page proposal and a phone call.

Group C's concern for Government bidding methods is focused mainly on the specifications written in the solicitations. They feel that the Government specifications do not reflect what industry is producing. They also stated that the specifications are frequently outdated and do not make sense. Such problems with specifications cause companies to either bid improperly, because they are forced to interpret vague specifications, or spend thousands of dollars (unnecessarily according to Group C) in preparing a proposal that has a low probability of winning a contract award. The Group also feels that vague specifications cause delays in the bidding process because companies are forced to ask several questions to interpret the exact meaning of the specifications. Examples of Group C's comments concerning the Government bidding methods are provided below:

- Bid to specifications is required even if it can be proven to be not workable
- Compare to the private sector, directions in RFPs are often unclear and nonspecific.

Figure 5.2 illustrates the concerns identified by the total survey. Each concern is measured as a percentage (the frequency of responses divided by the number of companies that responded to question 9). The reason codes shown in Figure 5.2, are defined in Appendix B. The Figure shows the same proportional trend for the majority of the reasons. However, from the responses that generated a greater than 10.0% response

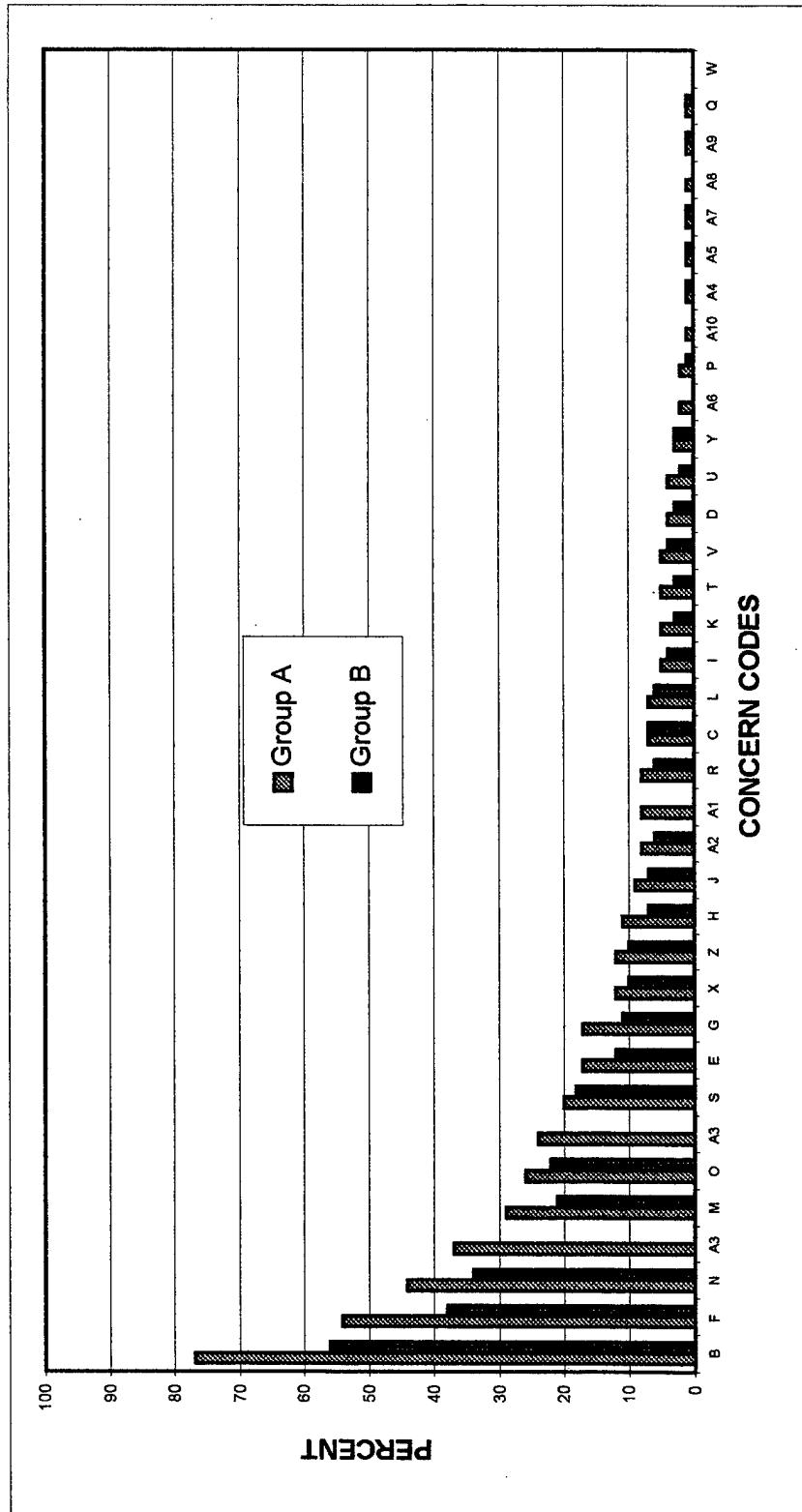


Figure 5.2 - Comparison of Groups A and B Concerns

rate, there were two concerns that received more attention from Group C than from the entire survey. These two concerns are "delays in award" and "frequent contract changes". Although further amplification was not provided for these responses, it can easily be understood how these can cause frustration in a contractor. "Delays in award" and "frequent contract changes" cause delays in production and subsequent inefficiency by the contractor. These concerns probably have a higher priority for Group C because they are dealing with these frustrations on a daily basis.

Table 5.10 categorizes Group C companies in two ways. First, by small or large businesses and second by prime contractors, subcontractors or "both" prime contractors and subcontractors. The two factors, presented in Table 5.10, are considered to be independent of one another.

TABLE 5.10						
COMPANY CHARACTERISTIC	SURVEY		GROUP C		SURVEY	
	#1	CONCERN	#1	CONCERN	FREQ.	CONCERN
LARGE BUSINESS(11)	B	B			3	
SMALL BUSINESS(17)	B	B			13	
UNIDENTIFIED(2)					2	
PRIME (10)	B	B			6	
SUB (5)	B	B			3	
BOTH (15)	B	B			8	
UNIDENTIFIED(0)					0	

Source: Developed by Researcher

The Table shows Group C small and large businesses shared the same top concerns as those of the total survey population. The large businesses were concerned with

"burdensome paperwork" and "more attractive ventures". The small businesses were concerned with "burdensome paperwork" and "Government bidding methods". Because there is no significant difference in the top concerns, it appears that the small and large businesses are a good representation of the entire survey because they share the same concerns.

Table 5.10 also shows that Group C's subcontractors and "both" prime contractors and subcontractors shared the same top concerns as the entire survey population. Both subgroups were concerned with "burdensome paperwork" and Government bidding methods. Group C's prime contractors cited "burdensome paperwork" and "delays in making award" as their top concerns. "Delays in making award" differed from what the prime contractor total population cited as their second most serious concern, "Government bidding methods". Many of the comments made by the prime contractor total population concerning "Government bidding methods" focused on the length of time involved in the bidding processes. This indicates that their concern for Government bidding methods actually included concerns for the length of time the Government is taking to award a contract. When the researcher reviewed comments made by Group C's prime contractors on "Government bidding methods", they only addressed issues such as the Government using onerous, outdated and ambiguous specifications. Therefore, the researcher observes that there really is no difference in top concerns for Group C and the total population of prime contractors.

The third analysis the researcher conducted was on Group C's concerns with Defense procurement, subdivided by major industry. The results of the top concerns by

major industry is provided in Table 5.11. Only two of the industries, manufacturing and services, had more than one response from each of the companies.

TABLE 5.11				
GROUP C MAJOR INDUSTRIES TOP CONCERNs				
MAJOR INDUSTRY	TOP REASON	FREQ.	NEXT REASON	FREQ.
CONSTRUCTION	ACCEPTANCE/REJECTION OF PROD.	1	GOVT BIDDING METHODS	1
MANUFACTURING	BURDENOME PAPERWORK	11	MORE ATTRACTIVE VENTURES	5
TRANS. & COMM. SERV.	MORE ATTRACTIVE VENTURES	1	INFLEX. PROC. POLICIES	1
WHOLESALE	GOVT BIDDING METHODS	1	TOO MUCH GOVT OVERSIGHT	1
SERVICES	BURDENOME PAPERWORK	4	GOVT BIDDING METHODS	4
UNIDENTIFIED	LOW PROFITABILITY	1	MORE ATTRACTIVE VENTURES	1

Source: Developed by Researcher

The other industries are not reviewed because of insufficient data. Both the manufacturing and service industries cited "burdensome paperwork" as their primary concern. "Burdensome paperwork" has remained the primary concern for Group C regardless of how the group is subdivided. The two groups did differ in how they perceived their second most serious concern. The manufacturing industry identified "more attractive ventures" and the services cited "Government bidding methods" as a secondary concern. The manufacturing industry provided only one comment concerning "more attractive ventures". The company who voiced this concern stated that it has in the past and will continue to support the Defense in times of urgency; however, because of insufficient production rates, commercial business is more attractive. Although one comment cannot represent the entire population, it appears that the manufacturers are willing and able to participate in Defense business if and when there is a need, but they would rather deal with the commercial sectors because they could not continue to operate on Defense business alone. It was surprising to the researcher that insufficient production

rates was not a dominating concern for Group A since the Defense procurement budget has dramatically been reduced over the last 10 years. It was interesting to the researcher that the two comments were not geared toward the use of onerous military specifications (as other categories previously identified), but focused on the Defense's use of vague directions in solicitations and favoritism for local and past contractors during the development of the specifications and during source selection.

The last analysis for top concerns involved the use of the taxonomy [Ref. 10:p. 26] that subdivided the concerns first by contract phase and then by basis of decisions. Table 5.12 provides the results of this breakdown. The Table shows that the breakdown for each of the subcategories is proportionally the same for Group C and the overall survey results. The majority of the concerns are within the "pre-award" phase and then equally distributed among the "procurement process", "contractor decision" and "pervasive throughout all phases". This indicates that Group C may have different concerns, but they are still concentrated in the same areas of the total survey population.

6. Protests and Claims

Group C had only one company which filed a protest and none file a claim. A total of 12 protests were file for the entire survey. Although Group C's one protest was denied, question 9Q (adverse decision from GAO) was not cited as a concern for doing business with DoD. Because of the insignificant number of protests and claims, it is tempting to draw a conclusion that protests have no bearing on a company's attitude of dealing with DoD. However, because of the small number of protests and claims filed

TABLE 5.12

GROUP C
DISTRIBUTION OF REASONS CITED BY 30 FIRMS ANSWERING
QUESTION 9 WITHIN TAXONOMY

CATEGORY	PHASES		
	PRE-AWARD	AWARD	POST-AWARD
PROCUREMENT PROCESS TOTAL = 34 PERCENT = 35.4% SURVEY % = 30.0%	F=12 I=1 <u>L</u> =1 TOTAL = 14	<u>G</u> =6 TOTAL = 6	D=1 U=1 <u>L</u> =1 J=2 H=4 A=5 TOTAL = 14
GOVERNMENT DECISION TOTAL = 7 PERCENT = 7.3% SURVEY % = 4.6%	C=0 Q=0 V=2 TOTAL = 2	<u>A</u> 6 = 2 TOTAL = 2	K=2 P=1 W=0 Y = 0 TOTAL = 3
CONTRACTOR DECISION TOTAL = 26 PERCENT = 27.1% SURVEY % = 33.3%	E=5 M=8 N=8 R=1 X=2 Z= 2 A1=0 A3=0 A7=0 <u>A</u> 9=0 TOTAL = 26		N/A N/A
PERVASIVE THROUGHOUT ALL PHASES TOTAL = 29 PERCENT = 30.2% SURVEY % = 32.1%	B=17 O=3 S=3 T=2 A2=2 A4=0 A5=0 A8=1 A10=1 TOTAL = 29		
TOTAL 96	TOTAL = 9.67 PERCENT = 53.8%	TOTAL = 17.67 PERCENT = 18.4%	TOTAL = 26.67 PERCENT = 27.8%
* L IS IN 2 AREAS	SURVEY = 60.7%	SURVEY = 14.0%	SURVEY = 25.3%

Source: Developed by Researcher

for the survey population, the researcher contends that there is insufficient information to determine a correlation.

7. Reasons For Becoming a Defense Contractor

The researcher found that nine companies (30.0%) from Group C indicated that they had become Defense contractors in the last ten years. Of the nine companies, 56.0% became a Defense contractor because of reasons other than acquisition reform initiatives. The remaining reasons (44.0%) were attributed to changes caused by acquisition reform. This result mirrored the overall survey population results.

8. Summary

Group C was comprised of 30 companies (14.6% of the survey population). Characteristics that describe the companies in this group are:

- Manufacturers
- Service providers
- Both small and large businesses
- Manufacturers of proprietary products
- Wholesale distributors
- Sales dominated by national market
- Prime contractors
- Major concerns with DoD
 - Burdensome paperwork
 - Government bidding methods

- More attractive ventures
- Low profitability
- Delays in making awards

Group C concerns should not be discounted. The group is comprised of companies that continue to do business with the Government, even though they have concerns with the Defense procurement system. The researcher suggests that because these companies have and are willing to stay in the Defense business, there is a tendency to ignore their concerns and target the concerns held by companies that refuse Defense business. Group C type companies should not be taken for granted, assuming they will continue to be a part of the Defense industrial base. From the statistics previously presented in this chapter, this group has gone down in size and it appears that over the last 10 years, companies who were once doing business with DoD (although they had concerns) have left the Defense business for ventures with less paperwork requirements and more profits. Consequently, DoD should target Group C's companies for future acquisition reform initiatives.

D. GROUP D

Group D included those companies that identified themselves as currently doing business with DoD or planning on doing business in the future and did not cite any concerns in question 9. Group D's responses indicated to the researcher that they were somewhat content with the Defense procurement system. This study comprised 21.5% (44 companies) of the entire survey population. When compared to Dr. Lamm's study [Ref. 10:p. 70], this percentage shows a significant reduction. In 1987, 50.1% of the

survey population identified themselves as being somewhat content with Defense procurement. It appears that the companies that once viewed themselves as being content with doing business with DoD and had intentions of remaining or becoming a Defense contractor in the future, have changed their minds and moved to one of the other Group categories. More than likely, the majority of the 1987 companies (identified as "IN") became disenchanted with DoD. This is supported by Group A having significantly increased since 1987. It is unlikely that the difference that exists between 1997 and 1987 is compensated by the number of companies in Group C (contractors that intend to continue with DoD business, but have concerns) because this group went down in size as well. It is possible, however that a portion of the 1987 "IN" companies who once intended to seek Defense business in the future are now part of Group B. The researcher contends that when these companies set out to enter into the Defense market, they either could not find the tools to get into Defense business or determined their product was not related to Defense needs. The latter situation is supported by the fact that the 1987 study did not have a population of companies that were unfamiliar with the Defense needs and procurement system, but today is represented by 22.0% of the population (identified as Group B). In the analysis that follows, the researcher has subdivided Group D in several different ways to help in understanding the driving forces behind this group.

1. Major Industries

The researcher subdivided Group D respondents into major industries, shown in Table 5.13. Of the seven major industries that were identified for the entire survey, five industries were represented in this Group. The mining and retail industries were absent

from Group D primarily because their combined total population consisted of only three companies, 1.5% of the entire survey population. Table 5.13 shows the wholesale trade and manufacturing industries being the most content of all major industries. It appears that although the service industry was the second largest stakeholder in the survey, Group D owns only 12.1% of the industries population. This is a relatively small percentage, when compared to the manufacturing and wholesale industries. This is cause for the researcher to believe that the services industry is not content with DoD procurement. The services are probably not as prevalent in this group because, as discussed previously in this chapter, the dual use services (as a result of the Defense's recent push to outsource functions not inherent to the Government [Ref. 4:p. 1] allow companies to be more flexible of pursing other less burdensome and more profitable ventures outside of the Defense market.

TABLE 5.13				
INDUSTRY GROUPING	GROUP D			SURVEY NUMBER OF FIRMS
	NUMBER OF FIRMS	% OF GROUP D	% OF INDUSTRY	
MINING	0	0.0	0.0	1
CONSTRUCTION	1	2.3	12.5	8
MANUFACTURING	31	70.4	26.1	119
TRANS. & COMM. SERVICES	1	2.3	16.7	6
WHOLESALE	6	13.6	30.0	20
RETAIL	0	0.0	0.0	2
SERVICES	4	9.1	12.1	33
UNIDENTIFIED	1	<u>2.3</u>	6.3	<u>16</u>
TOTAL	44	100.0	21.5	205

Source: Developed by Researcher

The researcher cannot draw any conclusions regarding the remaining industries because the their total population is too small.

2. Size of Business

Group B was divided into small and large businesses. There was one company that could not be categorized. However, the remaining companies of Group D were almost split down the middle. Twenty-two companies were small businesses and 21 companies were large businesses. All of the industries followed the same fifty-fifty split except for transportation, construction and wholesale. The transportation and construction industries were not considered because they were only represented by one company each. The wholesale industry had a two to one ratio of large businesses compared to small businesses. This was interesting to the researcher because the small businesses dominated the large businesses in the overall survey. This could partly be attributed to the primary concern noted in question 9 by Groups A and B. The wholesale industry noted that burdensome paperwork was their most significant concern and as a result, the large businesses may not be as affected as the small businesses. Table 5.14 compares the number of large and small businesses for the total survey and Group D. The Table shows that 36.0% of the large businesses and only 17.8% of the small businesses indicated that they were content with doing business with DoD Defense. This means in relative terms, twice as many large companies are willing to do business with DoD (with no concerns) than small businesses. As mentioned previously, this may be attributed to the amount of resources a large company has (compared to a small

company) that can be dedicated toward learning about and adhering to the Defense regulations and requirements.

TABLE 5.14									
MAJOR INDUSTRY GROUP	LARGE BUSINESS			SMALL BUSINESS			UNIDENTIFIED		
	GROUP D	%	TOTAL SURVEY	GROUP D	%	TOTAL SURVEY	GROUP D	%	TOTAL SURVEY
MINING	0		0	0		1	0		0
CONSTRUCTION	1		5	0		3	0		0
MANUFACTURING	15		35	16		77	0		7
TRANS & COMM. SERVICES	0		4	1		2	0		0
WHOLESALE TRADE	4		8	2		12	0		0
RETAIL	0		0	0		2	0		0
SERVICES	2		9	2		21	0		3
UNIDENTIFIED	0		0	0		0	1		16
TOTAL	22	36.0%	61	21	17.8%	118	1	3.8%	26

* - (GROUP B/TOTAL SURVEY)
Source: Developed by Researcher

3. Company Sales

Group D was analyzed in two different ways concerning company sales. The researcher first looked at their sales by nature of work and then by customer location. The next two tables provide the results of this analysis.

Table 5.15 presents Group D's "percentage of sales by nature of work" and compares it to the total survey results. The majority of sales categories for each of the groups are proportionally similar to one another. However, Group D has a significantly less proportion than the "other" nature of work. In Chapter III, the researcher addressed that the majority companies indicated that "other" referred to services. The low percentage of sales in the "other" category corresponds to Group D services comprising only 12.1% of the service industry population (shown in Table 5.13).

TABLE 5.15		
GROUP D PERCENTAGE OF SALES BY NATURE OF WORK		
<u>NATURE OF WORK</u>	<u>TOTAL SURVEY % OF SALES</u>	<u>GROUP D % OF SALES</u>
MFG. OF PROPRIETARY PRODUCTS	41.2	48.4
CONTRACT MFG. FOR OTHERS	13.1	17.0
CONTRACT ENG. & RESEARCH FIRM	2.6	2.1
WHOLESALE DISTRIBUTOR	19.2	18.4
RETAILER	2.4	4.3
OTHER	<u>21.5</u>	<u>9.8</u>
TOTAL	100.0	100.0

Source: Developed by researcher

Table 5.16 provides Group D's "percentage of sales according to customer location" as well as the total survey results. The Table indicates that Group D's sales are generated proportionally to those of the overall study. The majority of the sales are generated from the national market and the least amount of sales coming from the foreign market. The similarities in this comparison indicate that Group D's sales according to customer location is indicative of the overall population's results.

TABLE 5.16		
GROUP D PERCENTAGE OF SALES ACCORDING TO CUSTOMER LOCATION		
<u>NATURE OF WORK</u>	<u>TOTAL SURVEY % OF SALES</u>	<u>GROUP D % OF SALES</u>
LOCAL	20.9	18.4
REGIONAL	13.5	10.1
NATIONAL	53.4	56.5
FOREIGN	<u>12.2</u>	<u>15.0</u>
TOTAL	100.0	100.0

Source: Developed by researcher

4. Prime Contractor Versus Subcontractor

The researcher subdivided Group D companies into prime contractors, subcontractors, "both" (prime contractor and subcontractor) or unidentified (could not be determined). The numbers in each subgroup were converted to percentages (number in contractor type as a percentage of the Group D population). These percentages were then compared to the percentages for the overall survey population and are presented in Figure 5.3. The Figure shows an interesting trend. The overall survey has the "both" category as being the largest, followed by prime contractors, subcontractors and then unidentified. Group D is dominated by the "both" category as well, however, the second most populated subcategory is the subcontractor group. However, 54.2% of all of the subcontractors in this study belong to Group D. The percentages for the prime and "both" categories are not as significant, 28.6% and 16.2% respectively.

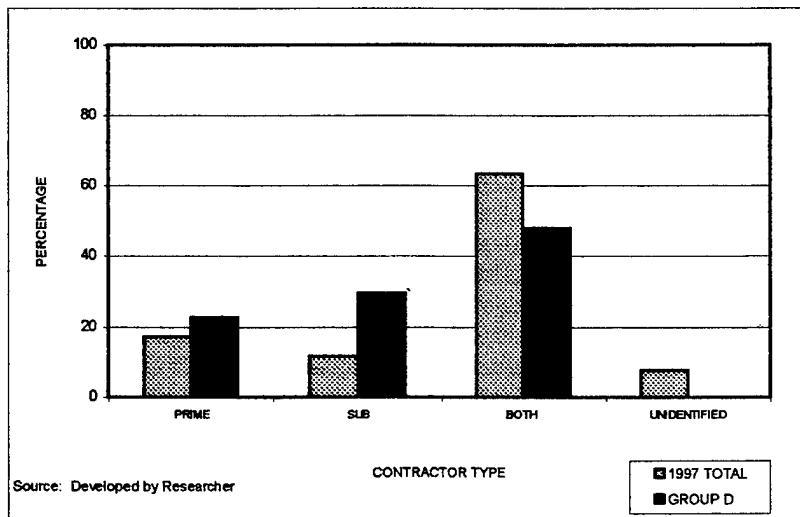


Figure 5.3 - Group D Contractor Type Comparison

The researcher proposes that this group is dominated by subcontractors because subcontractors do not have privity of contract with the Government and therefore are not

forced to comply with all of the Government regulations and paperwork requirements (except where the flowdown clause applies) that the prime contractor is forced to adhere to.

5. Protests and Claims

The number of protests and claims were looked at for Group D and then compared to that of the total number of respondents, represented in Table 5.17. The Table shows that Group D is responsible for 75.0% of the filed protests. Additionally, Group D accounts for the majority of claims filed in this study (for both ASBCA and appropriate courts). The number of protests sustained and denied were split almost 50/50. The same split was shown for the number of claims sustained and denied. Having the majority of protests and claims belonging to Group D, it appears to the researcher that the companies in this group do not feel that there are biases or problems with the protest or claim process, at least to the extent that it would drive them away from dealing with DoD.

WHERE PROTEST OR CLAIM FILED	TOTAL SURVEY # OF COMPANIES	GROUP D			
		# OF COMPANIES	% OF PROTEST OR CLAIM	SUSTAINED	DENIED
FILED WITH GAO	12	9	75.0	5	4
FILED WITH ASBCA	3	2	66.7	0	2
FILED WITH COURTS	1	1	100.0	1	0
NO PROTEST OR CLAIM	<u>189</u>	<u>32</u>	16.9	N/A	N/A
TOTAL	205	44	21.5		

Source: Developed by Researcher

6. Reasons for Becoming a Defense Contractor

Group D was made up of 14 companies that answered question 16 indicating they had become a Defense contractor in the last 10 years. The 14 responding companies provided 29 responses to question 17, identifying their reasons for entering into the Defense business since 1987. The researcher categorized these responses into reasons that were not attributed to acquisition reform and reasons that could be attributed to acquisition reform. Table 5.18 provides the frequency of each response provided by the 14 companies. The Table shows that 62.0% of the companies that entered into the Defense industry because of reasons unrelated to acquisition reform.

TABLE 5.18			
GROUP D REASONS WHY COMPANIES BECAME DEFENSE CONTRACTORS IN LAST TEN YEARS			
	REASON	FREQUENCY	PERCENT
GROUP D NON-ACQ. REFORM REASONS 62%	SMALL BUSINESS SET ASIDE	3	10.3
	SMALL DISADV. BUS. SET ASIDE	1	3.4
	NEW DEFENSE BUSINESS	9	31.0
	MET GOV'T NEEDS	1	3.4
	OPPORTUNITY EXISTED	3	10.3
	MORE OPPORTUNITIES THAN COMMERCIAL	0	0.0
	GSA SCHEDULE	1	3.4
TOTAL SURVEY - 67%	LESS PAPERWORK	2	6.9
	LESS MIL SPECIFICATIONS	1	3.4
	COST AND PRICING DATA	2	6.9
	NEW DEFINITION OF COMM ITEM	2	6.9
	POST AWARD DEBRIEFS	1	3.4
	PAST PERFORMANCE EMPHASIS	2	6.9
	EC/EDI	1	3.4
GROUP D REASONS CAUSED BY ACQ. REFORM 38%	OTHER ACQ INITIATIVES	0	0.0
		TOTAL	29
			1.0
Source: Developed by Researcher			

Conversely, 38.0% of the respondents indicated that acquisition reform was the reason for them pursuing the Defense as a customer. These proportions were similar to those of

the entire survey. Group D respondent's primary reason for becoming a Defense contractor was because the company was developed to sell to the Defense industry. The second most significant concern in this category was due to the small business set-asides. The primary reasons associated with acquisition reform were less paperwork, cost and pricing data, new definition of commercial item, and emphasis on past performance.

7. Summary

In summary, 21.5% of all respondents view themselves as being content with Defense procurement and either plan to remain or become a Defense contractor in the future. This percentage significantly dropped when compared to the 1987 study [Ref. 10:p. 70] of 50.1%. It appears that almost 29.0% of the companies that said, in 1987, they were content with doing business with DoD, no longer feel that way and as a result have been categorized into different Groups. The two likely groups that these companies migrated to are Group A (companies that refuse Defense business) and Group B (companies that want Defense business but do not know how or do not have a product that the Defense needs.)

The researcher found that Group D can be characterized by the following:

- Wholesalers
- Manufacturers
- Large Businesses
- Manufacturers of Proprietary Products
- Businesses that Target the National Market
- Subcontractors

- Businesses that Entered the Defense Market for Reasons Other than Acquisition Reform

The researcher's analysis of Group D indicates that the number of contractors who consider themselves content with DoD and are willing to continue or become a Defense contractor is greatly reducing. It should be the Government's goal to increase this group's size. This study is an indicator that the Defense industrial base is declining and as a result, DoD will be put at risk in the future of not being able to respond to urgent requirements during war time situations, and during times of peace, having insufficient competition to ensure tax dollars are being protected. To aid in increasing this group's size, DoD needs to understand not only what it is doing that drives these companies away from Defense business, but also what DoD is doing right that keeps the companies in Group D content. Groups A, B and C all addressed companies' opinions of what DoD is doing "wrong". However, the researcher notes that her survey did not include a question that addressed what DoD is doing "right" and should be addressed in a later study.

VI. INTERGROUP COMPARATIVE ANALYSIS

A. INTRODUCTION

Chapters IV and V provided a detailed analysis of Groups A, B, C and D. In these two chapters, the researcher analyzed trends for each group and compared them to the data representing the overall survey population and provided her perception of the underlying causes of the similarities and differences. In this chapter focusing on intergroup comparative analysis, the researcher will look to develop a differential comparison between the categorical attributes of the individual groups and to determine the dominating characteristics for each group. As a review, the following defines each group:

- A - Companies that are currently in business with DoD, but plan to get out, or companies that have no intention of ever entering the Defense business;
- B - Companies that do not have Defense business because they do not know how to gain access to Defense business, or they are not aware of having a product or service that the Defense can use;
- C - Companies that are in the Defense business and intend to continue such business, but have concerns of having DoD as a customer;
- D - Companies that currently have Defense business and plan to stay in, or do not have business with DoD, but plan to pursue them as a customer in the future.

It should be noted that in the tables and figures of this chapter, the researcher has included "unidentified" companies (ones that could not be categorized as a particular industry, small or large business, or prime or subcontractor) for completeness. The

researcher does not provide analysis concerning those companies due to a lack of relevance or benefit in providing such information.

B. OVERVIEW

Group A, consisting of companies that were not doing business with DoD and or plan to leave the Defense business in the future, comprises 42.0% of the total survey population. This is the largest group of the survey, followed by (in order of most populated to least): Group B, companies that did not know how to enter into the Defense business or perceived they had a product or service that was not related to the Defense, 21.9%; Group D, companies that were doing business with the Defense and planned to continue with no concerns, 21.5%; and Group C, companies that were doing and planned to continue to do business with DoD, but had some concerns, 14.6%. This comparison indicates several points to the researcher. First, the percentage of companies that do not want to participate in Defense business is significantly larger than any other group. The researcher's initial speculation was that the major cause of the distribution was because of downsizing in the Defense budget and that companies are hesitant to pursue ventures with little or no expected future growth. However, the reasons that this group provided in the survey, were relatively the same as the reasons Dr. Lamm's 1987 respondents provided [Ref. 10:p. 75], as discussed in Chapter IV. Therefore, the researcher contends that Group A has continued to grow since 1987 and is now the dominating group for 1997 because of issues not related to downsizing. Such factors as burdensome paperwork and objections to the Government bidding methods, appear not to have been sufficiently

addressed or modified by acquisition reform to cause these companies to maintain DoD as a customer.

Group D, the group where growth would be beneficial to the Defense, consists of companies that are doing DOD business and want to continue to have the Defense as a customer. However, Group D only represents 21.5% of the overall population. This group is half the size of Group A and, as discussed in Chapter V, has decreased significantly in size since 1987. The researcher contends that requirements of FASA and FARA are either not being generally adhered to or are not having the intended affect and as a result, companies are opting not to remain in the Defense business because they are not benefiting from policy changes. FASA's requirement for agencies to use commercial products is a prime example. The Act "encourages" agencies to buy more commercial products using performance specifications rather than products designed to Government-unique design specifications. Wording such as "encourages" not only allows agencies the flexibility to make the best business decision for their organization, but it also allows them flexibility to avoid commercial items because they want something with more "bells and whistles" which can be written into DoD specifications. Although, the researcher believes that DoD is on the correct path to improving the Defense and industry relationship, she also believes that there is much to overcome before Group A is the smaller of the three groups.

Group B, a non-existent population in the 1987 study, comprises almost 22.0% of the population. This group is made up of companies that are not knowledgeable of DoD bidding methods and requirements. The researcher contends that this group is large

because DoD does not sufficiently advertise its bidding methods and requirements, and thus not educating all industries of the opportunities of having DoD as a customer. If DoD feels a need to target this population, it needs to expend more effort in reaching these companies. The researcher further contends that using new technology, such as the Internet and the World Wide Web may be helpful in communicating bidding methods and requirements to all companies.

C. MAJOR INDUSTRY

The researcher compared the groups' percentage size of each industry to determine if industries were dominated by any one particular group. This comparison is provided in Table 6.1.

MAJOR INDUSTRY	GROUPS				TOTAL SURVEY POPULATION
	A	B	C	D	
MINING	100.0	0.0	0.0	0.0	1
CONSTRUCTION	50.0	25.0	12.5	12.5	8
MANUFACTURING	46.2	11.8	16.0	26.0	119
TRANS. & COMM. SERVICES	66.6	0.0	16.7	16.7	6
WHOLESALE	30.0	30.0	10.0	30.0	20
RETAIL	100.0	0.0	0.0	0.0	2
SERVICES	36.4	36.4	15.1	12.1	33
UNIDENTIFIED	12.5	68.8	12.5	6.2	16
TOTAL	41.9	22.0	14.6	21.5	205

Source: Developed by Researcher

The Table shows that Group A prevailed in every industry, with the exception of the wholesale trade and service industry. Although, it is worthy to note, that these two industries did not show Group A as having an insignificant amount of companies that fell under one particular group, but rather an equal distribution among the other groups. For

example, the wholesale industry companies were equally distributed among Groups A, B and D and the service industry companies were equally disbursed among Groups A and B. The researcher contends that a company's reluctance to participate in Defense business is not specific to one industry, but rather an attitude that is predominantly shared by all industries (at least all industries that participated in this study). The researcher, believes a majority of the companies in each of the industries (with the exception of construction and transportation) is owned by small businesses as seen in Table 3.4. Companies considered to be a small business do not have the resources (both financial and personnel) available to dedicate to DoD's burdensome requirements, such as knowledge of and compliance with onerous specifications and associated paperwork. The construction and transportation industries can be excluded from the researcher's contention because they both have an overall study population of less than nine companies and as a result, cannot reasonably be included in determining trends.

D. COMPANY SIZE

The researcher compared the percentage of small and large businesses that fell within each of the groups. Figure 6.1 shows the results of this comparison. From the Figure, it is readily apparent that Group A owns the majority of the small businesses. This coincides with the statement provided in Section C of this chapter, that small businesses are more apt to leave DoD or not even pursue Defense business because they lack the resources that are required to accommodate the Government's excessive paperwork requirements.

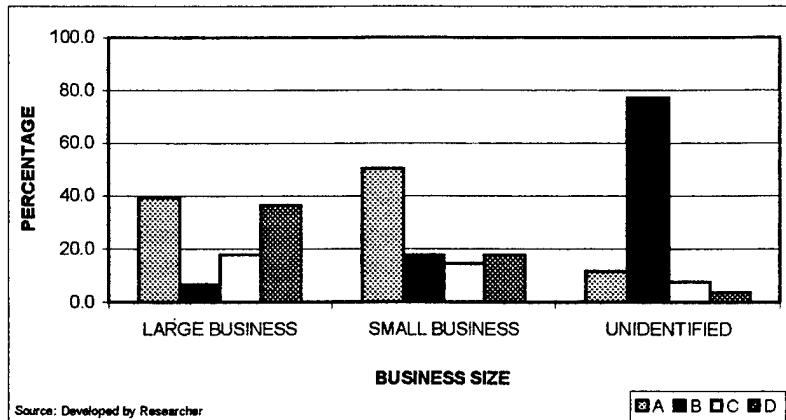


Figure 6.1 - Small and Large Businesses by Percentage

Group B has the lowest percentage of large businesses. The researcher contends that this small proportion is due to large businesses having sufficient resources to seek out viable markets to sell their products or services and the procedures for entering those markets. Therefore, the large businesses are not a significant portion of Group B.

Based on the information provided in Figure 6.1, it is evident to the researcher that in order to maintain a viable Defense industrial base, future improvements in the acquisition process need to target small businesses. The small businesses simply do not have sufficient resources to comply with many of the Government's requirements, such as responding to a request for proposal, that has numerous military unique specifications.

E. COMPANY SALES

Company Sales were reviewed from two aspects. First, the researcher looked at the percentage of sales by the nature of the companies' work, and then the percentage of sales based on location of their market. These areas were reviewed for each of the groups to determine if any of the groups had sales dominant in a particular market or nature of work.

Figure 6.2 shows each of the groups' percentage of sales by nature of the companies' work. It appears that the groupings for each category of work have relatively the same percentages (plus or minus 10.0%) for each of the groups, with the exception of one category, "other". As pointed out in Chapter III, the "other" type of work is primarily made up of sales generated from services. The Figure shows that Groups A and B have significantly larger proportions of sales generated in "other" types of work than Groups C and D. The researcher contends that this is because the service industry is comprised of a 2.5:1 ratio of small businesses to large businesses and small businesses are more likely to refuse Defense business due to their lack of resources to support Defense requirements. The researcher also suggests that this supports Group B having such a large percentage of "other" type of work because the small businesses lack the resources to look for additional ventures.

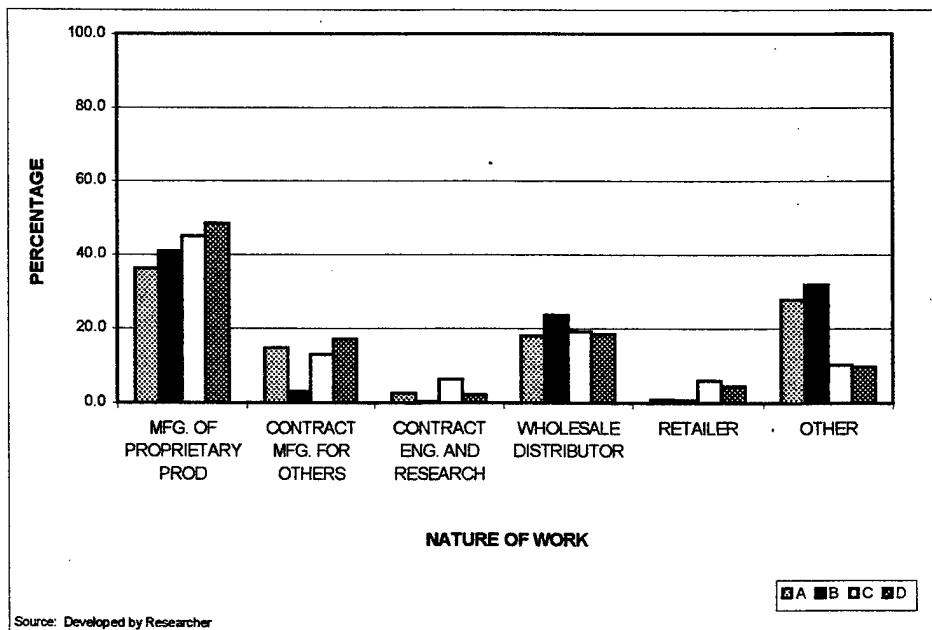


Figure 6.2 - Percentage of Sales by Nature of Work

Figure 6.3 identifies each group's percentage of sales based on customer location (market). The Figure shows that the percentage of sales for each market is proportionally the same for all groups (plus or minus 10%). However, it is interesting to note, that of all four groups, the national market is where sales are predominantly generated. As a result, the researcher suggests that the trend shown in Figure 6.3 (National market being the largest followed by local, foreign and regional) is inherent to each of the groups. Therefore, it would behoove DoD to treat the national market as its competitor for maintaining or improving the Defense industrial base. Additionally, future acquisition reform efforts should be targeted toward reflecting procedures that are similar or more efficient than what the national market requires from companies.

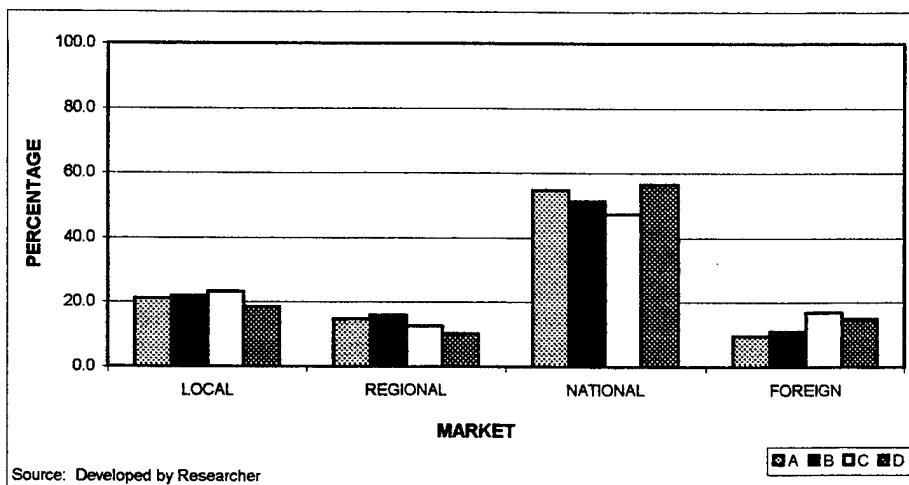


Figure 6.3 - Percentage of Sales According to Customer Location

F. PRIME CONTRACTORS VERSUS SUBCONTRACTORS

The researcher provided the proportional breakdown for prime contractors, subcontractors and "both" categories for each group, provided in Figure 6.4. The Figure shows a tremendous amount of diversity in the subcontractor and "both" categories.

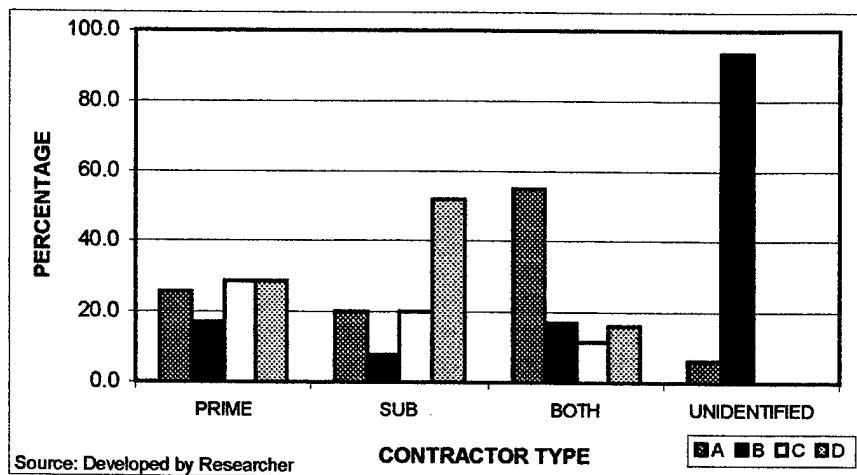


Figure 6.4 - Percentages of Prime and Subcontractors

The subcontractor category appears to be owned primarily by Group D (52.0%). The remaining 48.0% is owned mainly by Groups A and C. The researcher suggests that Group D has a significant portion of the subcontractor population because DoD does not have privity of contract with subcontractors, and consequently, do not encounter the same level of problems that prime contractors believe DoD brings to them. For example, one of the prime contractors' top two reasons for not participating in Defense business, shown in Table 4.5, is due to DoD's failure to pay on time. The prime contractor has everything at stake when he is not paid. Although the prime may not receive payment from DoD on time, he is still responsible for paying his debts to his creditors and suppliers.

Figure 6.4 also shows the "both" category being dominated by Group A. The researcher contends that companies considering themselves as "both" are more versatile and adaptable to seeking greater opportunities and not as willing to remain in a market that has little or no potential for growth. Consequently, these companies are leaving the Defense business for high growth markets that will not place extraneous requirements on

them and, subsequently, allowing them greater profits. Group A provided comments to the researcher about their concerns for not doing business with DoD. The comments focused on burdensome paperwork and Government bidding methods, reflecting a concern for the Defense's use of onerous specifications that result in higher costs and lower profits.

Based on the analysis above, the researcher suggests that future acquisition reform focus not just on the prime contractors or subcontractors, but both types of contractors. Although more than 50.0% of the subcontractors cited that they were content with doing business with DoD, there was a slightly greater proportion of "both" types of contractors that stated they would not participate in Defense business. Therefore, the researcher believes that it would not be wise to solely focus on prime contractors for future acquisition reform.

G. TOP CONCERN FOR PARTICIPATING IN DEFENSE BUSINESS

Three groups responded to Question 9 of the survey, identifying concerns with participating in Defense business. Group A provided reasons why they are now or intend to refuse to conduct business with DoD. Group C provided their concerns, although their intention was to continue to keep Defense as a customer. Group B provided their reasons for not dealing with the Defense. These reasons were not related to problems encountered with Defense procurement, but rather a lack of knowledge concerning their product or service's usefulness for DoD or procedures for becoming a Defense contractor. Because Group B's reasons for not participating in the Defense business are unrelated to Group A and C concerns, Group B will not be addressed in this analysis.

Table 6.2 provides the top five concerns with the Defense procurement system for Groups A and C. Although the attitude from each group toward having DoD as a customer completely differ, four of the five top five concerns remain the same.

TABLE 6.2	
GROUP A AND C TOP CONCERN	
GROUP A	GROUP C
BURDENSOME PAPERWORK	BURDENSOME PAPERWORK
GOVERNMENT BIDDING METHODS	GOVERNMENT BIDDING METHODS
MORE ATTRACTIVE VENTURES	MORE ATTRACTIVE VENTURES
LOW PROFITABILITY	LOW PROFITABILITY
INFLEXIBLE PROCUREMENT POLICIES	DELAYS IN MAKING AWARDS

The researcher suggests the only difference between the two groups is that Group A is owned primarily by small businesses and Group C is owned primarily by large businesses. So, even though they share the same concerns, they differ in their ability (financially and personnel) to comply with the Government's requirements.

The researcher contends that since the two groups share four of the five top concerns, it is imperative that DoD focus its attention in future acquisition reform to providing relief to contractors regarding, burdensome paperwork, current Government bidding methods as well as more attractive ventures and low profitability.

The researcher broke down the concerns of Groups A and C using the taxonomy presented in Chapter III [Ref. 10:p. 26]. The complete taxonomy provided in Appendix D, provides the distribution of both groups' concerns for each phase of the acquisition cycle and basis of decision. Table 6.3 provides the overall results of the group comparison showing the percentage of concerns that fell within each of the acquisition

phases and basis of decision categories. The Table shows that both groups' concerns are dispersed proportionally when compared to one another.

TABLE 6.3		
CONSOLIDATED TAXONOMY FOR GROUPS A AND C		
CATEGORY	GROUP A PERCENTAGE	GROUP C PERCENTAGE
<u>BASIS OF DECISION</u>		
PROCUREMENT PROCESS	31.8	35.4
GOVERNMENT DECISION	5.8	7.3
CONTRACTOR DECISION	29.4	27.1
PERVASIVE THROUGHOUT ALL PHASES	33.0	30.2
<u>ACQUISITION PHASES</u>		
PRE-AWARD	58.8	53.8
AWARD	14.4	18.4
POST-AWARD	26.8	27.8

Source: Developed by Researcher

Both groups' concerns predominantly fell under the pre-award phase. Approximately one-third of the concerns (for both groups) were attributed to the procurement process, contractor's decision and pervasive throughout all phases. This analysis supports the researcher's contention that Groups A and C share the same concerns.

H. PROTESTS AND CLAIMS

The number of protests and claims were reviewed for each of the groups to determine if a correlation exists between the number of protests and/or claims a company files and its preference of conducting business with DoD. Figure 6.5 shows the percentage of protests and claims filed by each of the groups. It is readily apparent to the researcher that Group D is responsible for the majority of protests that were filed with GAO and claims filed with ASBCA and the appropriate courts. Group B had not filed

any protests or claims because they have never had any DoD experience. Reflecting back to Chapter III, the researcher found that only a total of twelve protests (5.8%) and four claims (1.97%) were filed by all survey respondents, a significant decrease from 1987 (down from 9.8% and 10.5% respectively). The researcher has two contentions, based on the information provided above. First, the proportion of protests have decreased because of FASA's new emphasis on the use of post-award debriefs [Ref. 26:p. 3-4]. Additionally, the proportion of claims have decreased since 1987 because of the passage of the Administrative Dispute Resolution (ADR) Act of 1990. The purpose of ADR is to resolve disputes through managing conflict and subsequently preventing timely and costly court hearings [Ref. 1]. This Act created the general authority for ADR and required agencies to establish ADR policies. The researcher's second contention is that Groups C and D are responsible for the majority of protests and claims because their associated companies are currently doing business with the Government and have had experiences that warranted protests or claims. Group A only consists of 35 companies (40.7% of its population) that have had any experience with DoD (provided in question 7) and therefore, have really not had an opportunity or reason to file a protest or claim. Consequently, the researcher suggests that protests and claims have little or no bearing on a company choosing to have DoD as a customer. A last point to support the researcher's suggestion is that Group A had three responses (out of 154 responses provided by the survey respondents, shown in Table 3.12) for Question 9 that stated protests or claims being the reason for not wanting the Defense as a customer.

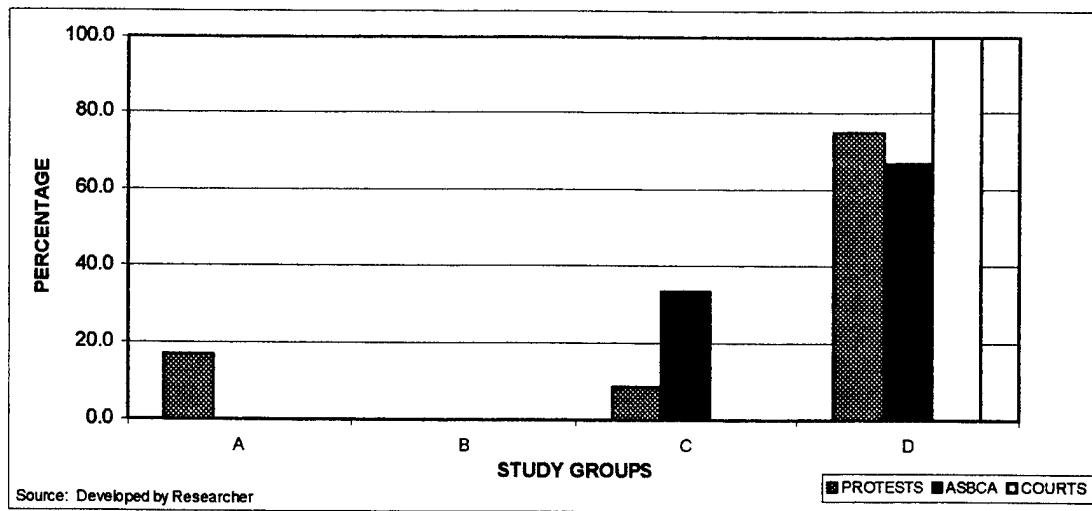


Figure 6.5 - Group Comparison of Percentages of Filed Protests and Claims

When just Groups C and D are compared to one another in Figure 6.5, the Figure shows that Group D is responsible for a larger proportion of protests and claims than Group C. This initially seemed odd to the researcher that the group that was most content with Defense procurement had filed the greatest number of protests and claims. However, a further look into the group's population size, revealed that Group C is one-third smaller than Group D. The group's difference in population size helps explain the large gap between the number of protests and claims that were filed. Group A owns 100.0% of the claims filed with the courts because there was only one company in the survey for this category.

I. REASONS FOR BECOMING A DEFENSE CONTRACTOR SINCE 1987

The reasons for becoming a Defense contractor in the last 10 years were compared between Groups A, C and D. Group B companies were not included in this analysis because they have no experience with Defense contracting and were therefore,

ineligible for this comparison. The analysis was conducted to assist the researcher in answering one of the subsidiary research questions, "have changes in the acquisition environment over the last ten years altered industry's view of Defense business?"

Table 6.4 shows the reasons why each group chose to enter into Defense business since 1987.

TABLE 6.4					
REASONS WHY GROUPS A, C AND D BECAME DEFENSE CONTRACTORS IN LAST TEN YEARS IN LAST TEN YEARS					
NON-ACQ. REFORM	REASON	GROUP % OF REASON			FREQ. OF TOTAL SURVEY
GROUP A = 60% GROUP C = 56% GROUP D = 62%	NEW DEFENSE BUSINESS	16.7	8.3	75.0	12
	SMALL BUSINESS SET ASIDE	40.0	30.0	30.0	10
	OPPORTUNITY EXISTED	20.0	20.0	60.0	5
	MET GOVT NEEDS	50.0	0.0	50.0	2
	SMALL DISADV. BUS. SET ASIDE	0.0	0.0	100.0	1
	MORE OPPORTUNITIES THAN COMM.	100.0	0.0	0.0	1
	GSA SCHEDULE	0.0	0.0	100.0	1
ACQ. REFORM GROUP A = 40% GROUP C = 44% GROUP D = 38%	NEW DEFINITION OF COMM ITEM	25.0	25.0	50.0	4
	LESS MIL SPECIFICATIONS	25.0	50.0	25.0	4
	COST AND PRICING DATA	33.3	0.0	66.7	3
	LES PAPERWORK	33.3	0.0	66.7	3
	POST AWARD DEBRIEFS	33.3	33.3	33.3	3
	PAST PERFORMANCE EMPHASIS	33.3	0.0	66.7	3
	EC/EDI	0.0	0.0	100.0	1
	OTHER ACQ INITIATIVES	0.0	0.0	0.0	0
TOTAL					53

Source: Developed by Researcher

The Table categorizes each of those reasons into two categories, (1) reasons that were not attributed to acquisition reform, and (2) reasons that were attributed to acquisition reform. The distribution of the groups' reasons were very similar. Approximately 60.0% of all the groups' reasons were not related to acquisition reform, and conversely, 40.0% of their reasons were attributed to acquisition reform initiatives. Based on the data presented in the Table, the researcher submits that regardless of the group a company may fall within, the company used the same decision making foundation on entering into

Defense business. The companies primarily based their decisions on the opportunity to make additional sales and (for small businesses) the advantages of entering into the Defense business vice the commercial sector. The researcher further submits that acquisition reform initiatives are really only secondary issues that are addressed in a companies' decision making process when seeking new Defense business.

J. SUMMARY

The groups identified in this study had four diverse attitudes toward conducting business with the Defense. The predominant group (42.0%), Group A, represented companies that preferred to not do business with DoD in the future. The second largest group, Group B (21.9%), included companies that did not know how to enter into the Defense business or perceived they did not have a product or service required by DoD. These two groups combined represents 63.9% of the entire population. This is a significant portion of companies, considering they will not be a part of the future Defense industrial base. Additionally, in comparison to 1987, both of these groups' proportional size is increasing. This trend will continue to put DoD at risk of having a Defense industrial base that is not sufficient to respond to urgent requirements or adequate for competition to ensure tax payers receive fair and reasonable prices for goods and services procured through the Defense acquisition process.

If the DoD is to prevent future loss or possibly improve the stature of its industrial base, the researcher suggests that it target the following areas. First, focus future acquisition reform efforts on small businesses by alleviating the burdensome requirements, primarily in the bidding process. Second, focus on improving

communication to small businesses regarding bidding method procedures and the Defense requirements for products and services. Third, concentrate on reducing problems for both the prime contractors and subcontractors, primarily toward problems concerning burdensome paperwork and late/nonpayments (by the Defense). Both of these issues directly affect the prime contractor and can indirectly affect the subcontractor through flowdown clauses. Finally, DoD should also consider the groups' top concerns for not participating in Defense business in future acquisition reform. These concerns are:

- Burdensome paperwork;
- Government bidding methods;
- Profitability (also included in concern for more attractive ventures commercially);
- Inflexible procurement policies;
- Delays in making awards.

Although the top concerns should be a primary focus for future acquisition reform, DoD should keep in mind that overall, the groups' concerns primarily fell under the pre-award phase of the acquisition cycle. Consequently, the researcher further suggests that DoD center its attention on future acquisition reform dealing with concerns such as burdensome paperwork and inflexible procurement policies.

The researcher also suggests in this chapter that the decision-making process involved in entering Defense business does not really account for acquisition reform initiatives (such as FASA, FARA or ITMRA). Companies first consider if an

opportunity exists and if so, what advantages are gained by entering such a market. Only after these factors have been addressed, the researcher suggests, do they examine the impact acquisition reform will have on them by being in the Defense market.

The following and concluding chapter will provide the researcher's principal conclusions and recommendations for this study.

VII. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCTION

The purpose of this study was to determine the extent and reasons companies prefer to not participate in Defense business and what actions DoD could take to improve the industry-Defense relationship. The principal conclusions were derived from data accumulated and analyzed from a survey that was distributed among various industries. The researcher was able to derive several significant findings and subsequent conclusions from the survey data and make recommendations based on these conclusions.

B. CONCLUSIONS

#1. There is a significantly greater proportion of companies that prefer not to participate in Defense business when compared to 1987. The statistics in this research showed that 42.0% of the respondents were either currently conducting business with DoD and intended to get out of the business or were not in business with DoD and had no intention of entering the Defense market. This percentage has double over the last ten years. One would assume that shrinking Defense budgets would have been the primary reason these firms have chosen to focus their efforts toward more lucrative markets with growth potential vice a market that is slowly becoming smaller (like the Defense market). However, this group was principally concerned with the onerous administrative requirements that the Government places on them throughout the acquisition cycle, especially during the pre-award phase. Comprised mostly of small

businesses, they feel they cannot afford to comply with the solicitation requirements due to the overhead of time and effort that is required to put a proposal together.

#2. The percentage of firms that were conducting business but had concerns has decreased since 1987. During the last ten years, the proportion of firms that were participating in Defense business but had concerns with conducting business with DoD has decreased by half. Additionally, this group of companies was determined to be the second largest group in the 1987 study [Ref. 10:p. 70] (the firms wanting to do business and having no concerns was the largest), but is now the smallest group. The researcher's analysis showed that the attitude of these firms toward Defense business has changed and they are no longer doing business with DoD. The reason for these companies' change in strategy is because costly Government requirements required of them throughout the acquisition cycle have not reflected sufficient change alleviating them of the onerous and costly burdens. Consequently, these companies have opted to seek less "painful" and more profitable ventures in the commercial sector.

#3. A large portion of companies do not know how to become a Defense contractor or know if their product or service is needed by DoD. This study revealed that almost 22.0% of the respondents have no idea how to enter into DoD business or that their product or service is in Defense demand. This group primarily consists of small companies and has lead the researcher to conclude that the companies' limited resources (both in dollars and personnel) prevent them from investigating the Defense market. The companies in this group are accessible to DoD and are potential suppliers. By improving

DoD's communication with these companies, it can potentially improve the stature of the Defense industrial base.

#4. Companies that prefer not to conduct business with DoD now or in the future are primarily small businesses. Small Businesses make up the majority of the companies that refuse to do business with DoD. The researcher found that small businesses are concerned with their perceived inability to comply with Government requirements and the cost that would be incurred attempting to adequately respond to proposals or comply with the specifications required by the Government during contract performance. Because small businesses are constrained by the financial resources available to them, they are more inclined to pursue ventures that are less burdensome and costly to their organization. As a result, it would behoove DoD to focus future reform on alleviating the onerous burdens on small businesses.

#5. The researcher's hypothesis that the principal reasons companies refuse to participate in Defense business have not significantly changed in the last ten years, was supported in the results of this study. The companies that responded to Dr. Lamm's 1987 study [Ref. 10:p. 71] stated their top five concerns with participating in Defense business were burdensome paperwork, Government bidding methods, inflexible procurement policies, more attractive ventures commercially, and low profitability. This researcher's study has found the top concerns duplicated the top concerns of the 1987 study, with one exception: a large number of responses indicated that companies did not have a Defense related product or service (this concern was not cited at all in 1987). Although, the Government has initiated several improvements to the

Federal procurement system over the last ten years (primarily through FASA, FARA and ITMRA), the researcher concludes that these changes have not significantly impacted companies' attitudes toward Defense business. Companies continue to focus their concerns toward burdensome paperwork and Government bidding methods, regardless if they have opted to remain with Defense business or have chosen to seek commercial ventures elsewhere. There are several possible reasons for the top reasons to have remained the same over the last ten years. First, a large proportion of companies that refuse Defense business in 1997, base their preference on the word of another person or experiences from more than ten years ago. Their reasons do not necessarily reflect what is happening in today's acquisition environment. Second, several comments concerning burdensome paperwork and Government bidding methods were made based on the use of onerous military specifications. Although there has been a shift in Defense policy that encourages the use of commercial performance specifications, the results of this study indicate that military specifications are still being used to a large extent or companies that are out of DoD business are not privy to the changes that have occurred and have opinions that are outdated. Finally, the last possible reason is that the changes made from acquisition reform are not sufficient to cause companies to see DoD as a profitable venture.

#6. The top four conditions to be met by DoD to encourage future participation in Defense business are: (1) burdensome paperwork, (2) Government bidding methods, (3) more attractive commercial ventures and (4) low profitability.

While conclusion #5 addresses the responses to what are considered concerns for

conducting Defense business, the focus of this finding is toward constructive comments on how to encourage participation in Defense business. The findings parallel each other with the exception that to encourage Defense business participation, the execution of timely payments was considered a priority. The companies stated that if the following improvements were made to the acquisition procedures, they would enter Defense business: 1) reduce the use of military specifications; 2) eliminate non-relevant paperwork in bidding requirements; 3) ensure timely payments to the contractor; and 4) reduce the amount of paperwork in the overall procurement process. Although the above conditions represent 33 (61.1%) of the 54 responses, 17 companies (31.5%) responded that there was nothing that the Government could do to persuade them to conduct Defense business.

#7. The researcher's hypothesis that the pre-award phase of the procurement process will be the principal focus of respondent complaints was supported in this study. The researcher hypothesized that the pre-award phase would continue to be the principal focus of concerns for conducting business with DoD. The 1987 respondent concerns were primarily distributed within the pre-award phase, a finding mirrored by the concerns made by 1997 respondents. Many of the recent acquisition reform initiatives have targeted pre-award actions, such as increasing the use of performance specifications in the solicitation and requiring pre-award debriefs. The researcher concludes that DoD has made modifications to the Federal procurement system that impacts the pre-award phase. However these changes do not appear to have had the impact on the Defense industrial base as initially thought. Continuing to make

changes in the acquisition process is not adequate if DoD is to maintain or build its industrial base. Careful consideration needs to be made when initiating reform efforts to ensure the changes reflect the concerns of companies that have left the Defense business as well as companies that are remaining in business with DoD, but continue to have concerns.

C. RECOMMENDATIONS

#1. The implementation of future acquisition reform initiatives should reflect the concerns of companies refusing to deal with DoD and companies who retain DoD as a customer but have concerns. This study determined that the Federal procurement system includes excessive regulations and that agencies are continuing to use military specifications both of which are causing companies to incur costly and burdensome paperwork in both the bidding process and during contractor performance. FASA, FARA and ITMRA are all acts that the Government has passed in the last four years to attempt to alleviate the burden put on the contracting offices as well as the contractors. The researcher found that the proportion of companies refusing to do business with DoD in the last ten years has doubled. This indicates that acquisition reform efforts are not resulting in actions that address the concerns of industry. As a result, companies are leaving DoD to pursue commercial ventures that are less burdensome and more profitable. The researcher recommends that DoD implement future acquisition reform efforts after a complete analysis has been conducted to ensure that industry's concerns are being addressed.

#2. Future acquisition reform should be focused on industry's four top

concerns. This study identified industry's four top concerns for conducting business with DoD. These top concerns mirror the results of the 1987 study. The results of this study indicate that these top four concerns have either not been adequately addressed in recent acquisition reform legislation, or recent legislation has not impacted the Defense industrial base as previously expected. If DoD is to maintain or improve the stature of the Defense industrial base, it is imperative that these concerns are adequately addressed in future acquisition reform efforts. Therefore, the researcher recommends that the following four concerns be addressed in future acquisition reform initiatives:

- Burdensome paperwork;
- Government bidding methods;
- More attractive commercial ventures;
- Low profitability.

#3. Future acquisition reform efforts should be concentrated on pre-

award activities. This study revealed that companies' concerns for conducting business with DoD are primarily within the pre-award phase of the acquisition cycle. This finding held true for both the studies of 1997 and 1987. Although burdensome paperwork was the greatest concern for dealing with DoD, many comments indicated that the concerns were focused on pre-award activities such as the use of onerous specifications in solicitations. These specifications cause countless manhours to be devoted to developing a responsive proposal resulting in (what industry feels) excessive, costly and unnecessary pages of proposal documentation. Therefore, the researcher recommends that future

efforts toward improving the acquisition process be focused where industry's concerns are predominantly found, in the pre-award phase of the acquisition cycle.

#4. **Future acquisition reform efforts should be concentrated on small businesses.** Companies that refuse or intend to refuse Defense business were predominantly made up of small businesses. Because these companies' resources are more constrained than large businesses, they can not afford the money, time or people to dedicate toward comply with the Government's requirements. Future acquisition reform efforts should be focused primarily toward the small businesses and alleviating the burden that Defense procurement places on them.

#5. **Significant effort should be devoted to improving Defense-Industry communications in acquisition reform efforts.** The researcher suggested in this study that the proportion of companies refusing to do Defense business has not decreased over the last ten years partly because of companies' decisions for entrance into the Defense industry based on: (1) historical experiences from generally 15 years ago, or (2) hearsay that is either outdated or inaccurate. Additionally, the researcher suggested in this study that the proportion of companies refusing to do business with DoD has increased over time because industry's top four concerns have remained consistent over the last ten years and acquisition reform efforts are either not being strictly adhered to or not impacting industry as initially thought. Therefore, the researcher recommends that future acquisition reform efforts be communicated to industry (primarily to small businesses) regarding plans to implement reform measures as well as the expected impact on industry. Developing an open channel of communication with industry regarding future

acquisition reform will provide two opportunities. First, it will allow industry to make sound business decisions on complete and accurate information. Second, it provides industry an opportunity to provide feedback on their perception of the impact of future changes, before the changes are implemented. Utilizing this feedback, future initiatives will have a higher probability of positively impacting the Defense industrial base.

#6. Efforts should be undertaken to increase the access small businesses have to information about Government bidding methods and DoD requirements.

Approximately 22.0% of the respondents did not have sufficient information about bidding methods or Defense requirements. This represents a significant number of companies with potential to become Defense contractors if they had information pertaining to the Defense procurement system. The majority of the companies in this group were small businesses that tend to be limited in resources that can be applied to seek information about other ventures. It is recommended, although outside the scope of this thesis, that DoD improve its communication with small businesses to ensure they are receiving the necessary information concerning procedures to follow to enter into Defense business. With the increasing use of the Internet, this information could easily be made available to the public by establishing a World Wide Web site.

D. ANSWERS TO THE RESEARCH QUESTIONS

The following are the researcher's answers to her primary and subsidiary research questions that were derived from her findings and conclusions that were drawn from this study.

#1. Primary research question: To what extent do companies prefer not to do business with the Department of Defense and how might the acquisition process be changed to enhance Government-Industry relationships? Forty-two percent of the survey respondents indicated that they were either currently not participating and/or did not intend to participate in Defense business in the future. This percentage has double since 1987. To help prevent this percentage from increasing in the future, it is imperative that future acquisition reform initiatives focus on alleviating some of the burden from small businesses and publicizing those changes to ensure that public decisions of entering Defense business are based on current and accurate information. The top four conditions that would need to be met for the non-participating companies to conduct business with DoD in the future are 1) reduce the use of military specifications, 2) eliminate non-relevant paperwork in bidding requirements, 3) ensure timely payments to the contractor and 4) reduce the amount of paperwork in the overall procurement process.

#2. Subsidiary research question: What are the reasons firms choose not to participate in Defense business? Companies that are currently not participating in Defense business and/or intend not to conduct business with DoD in the future, cited 29 reasons why they do not want to deal with DoD in the future. The top five reasons these companies have opted to seek business from the commercial sector are burdensome paperwork, Government bidding methods, inflexible procurement policies, more attractive ventures commercially, and low profitability.

#3. Research Question: To what extent do these reasons exist? The top five concerns were cited by more than 25.0% of the companies that did not want to participate in Defense business in the future. However, the top concern, burdensome paperwork was cited by 70.0%, indicating that the onerous paperwork requirements that the Government puts on its contractors is a significant problem that has been and continues to be a problem for Defense contractors.

#4. Subsidiary research question: Have the changes in the acquisition environment over the last ten years altered industry's view of Defense business?

Acquisition Reform has made some great strides over the last ten years in attempting to streamline the acquisition procedures to alleviate some of the burdens on contracting officers and Defense contractors. However, given the passing of the three most recent acts regarding acquisition reform, (FASA, FARA and ITRMRA), it does not appear that Acquisition Reform has made a significant impact on industry's view of Defense business (based on the results of this study). The top concerns for not participating in Defense business were the same for 1997 as they were for 1987. Burdensome paperwork, which was cited by 70.0% of the respondents in 1997 was cited by 69.0% of the 1987 respondents [Ref. 10:p. 71]. Additionally, 67.0% of the respondents' reasons for becoming a Defense contractor during the past ten years were not related to acquisition reform initiatives. The above findings from this study indicate to the researcher that changes in the Acquisition environment over the last ten years have not altered industry's view of Defense business.

E. RECOMMENDATIONS FOR FUTURE RESEARCH

#1. Conduct future study on critical industries. Replicating Dr. Lamm's 1987 research, this study focused on determining the extent of companies, throughout various industries, preferring not to participate in Defense business and the reasons for their preference. However, DoD has demands based on what it classifies as critical industries. It would be worthwhile for DoD to conduct similar study, but target the critical industries.

#2. Determine the best method for dissemination of Defense procurement information to small businesses. This study revealed that 22.0% of the respondents did not know how to gain access to Defense procurement or did not know about the types of products that DoD procures. Most of the companies in this population were small businesses that are financially constrained, limiting their capability of seeking out other business opportunities, such as entering into the Defense market. However, it is not certain what methods would be best to ensure that small businesses are obtaining accurate and timely information regarding the Defense procurement system. Therefore, it is recommended that further research be conducted to determine the best way of disseminating information to companies, focusing on small businesses, concerning DoD bidding methods and its procurement requirements.

#3. Conduct further study to determine the extent to which DoD's failure to make timely payments affects contractors. Timely payments were not one of the top concerns for the overall survey, however, it was a top condition that would have to be met for companies participating in Defense business. Recognizing that many of the

responses in this survey were based on hearsay or outdated experiences and that the respondents concerns did not address late payments as a top concern, the researcher recommends that DoD conduct further study to determine the extent of late payments being made to contractors and the cause of such inaction. If there is a significant problem with contractors not receiving timely payments, then corrective action or training needs to be undertaken.

APPENDIX A. SURVEY QUESTIONNAIRE AND COVER LETTER

12 August 1997

LCDR Susan O. Randall
SMC # 2900
Naval Postgraduate School
Monterey, CA 93943
Phone: 408-648-0627
e-mail: mrandall@prodigy.net

Dear Sir:

This is a letter of introduction and a **request for assistance** in a Master's Thesis research project on the Defense Industrial Base.

My name is LCDR Susan O. Randall and I am an active duty Naval Officer in the U. S. Navy Supply Corps. I am currently a full time graduate student at the Naval Postgraduate School where I am working on an M.S. in Management, emphasizing contract management.

My Master's Thesis research work is focused on the Defense Industrial Base. Specifically, I am trying to analyze the reasons why capable commercial firms prefer to not participate in Department of Defense (DoD) business. My research goal is to determine the extent of the problem, (if it exists), and the key reasons for companies not accepting or pursuing DoD business.

A similar study was conducted 10 years ago, prior to the end of the cold war, significant DoD budget reductions and changes in acquisition policies and procedures. This study will determine if the same apprehensions exist now as they did 10 years ago, or if they have changed along with the change in the acquisition environment.

For these reasons, and with your help, I would like to gather information from various industries to subsequently analyze and draw conclusions/recommendations. Could you please take a few minutes of your time to complete the enclosed survey and return it at your earliest convenience? I also have the survey available on my website, (<http://web.nps.navy.mil/~sorandal/survey.html>), for those who would rather respond via the internet. All responses will remain strictly confidential. The survey results will be used for academic research analysis on Defense Industrial Base concerns and for recommending DoD procurement policy changes. Hopefully, any policy recommendations resulting from this survey will help improve and strengthen the business relationship between the Department of Defense and companies such as yours.

Thank you in advance for your assistance,

Susan O. Randall

**Susan Randall, LCDR, SC, USN
Naval Postgraduate School
SGC 2900
Monterey, CA 93943-5000**

SURVEY OF INDUSTRY OPINION OF DEFENSE PROCUREMENT

This survey is intended to solicit your ideas and concerns about Defense procurement policies and procedures. It is focused towards the reasons why firms do not desire to participate in Government Defense business. These firms may be current Defense contractors, may have been previous contractors, or have never received Defense awards. Please take a few moments to give me your honest appraisal/understanding of Defense business.

1. A. What is your primary product or service? _____

B. What is your primary Standard Industrial Classification (SIC) Code?

2. Please indicate the approximate number of your employees:

A. 0 - 19 <input type="radio"/>	D. 100 - 249 <input type="radio"/>	G. 1000 - 4999 <input type="radio"/>
B. 20 - 49 <input type="radio"/>	E. 250 - 499 <input type="radio"/>	H. 5000 - 9999 <input type="radio"/>
C. 50 - 99 <input type="radio"/>	F. 500 - 999 <input type="radio"/>	I. 10000 and over <input type="radio"/>

3. Is your company affiliated through ownership with other companies? YES NO

Please indicate the total employment of your company and your affiliated companies:

A. 0 - 19 <input type="radio"/>	D. 100 - 249 <input type="radio"/>	G. 1000 - 4999 <input type="radio"/>
B. 20 - 49 <input type="radio"/>	E. 250 - 499 <input type="radio"/>	H. 5000 - 9999 <input type="radio"/>
C. 50 - 99 <input type="radio"/>	F. 500 - 999 <input type="radio"/>	I. 10000 and over <input type="radio"/>

4. About what percentage of your total sales are made as a:

	<u>approx. %</u>
A. Manufacturer of proprietary products	_____ %
B. Contract manufacturer for others (job shop)	_____ %
C. Contract engineering for research firm	_____ %
D. Wholesale distributor	_____ %
E. Retailer	_____ %
F. Other	_____ %
Total	100 %

5. About what percentage of your total sales goes to customers in each of the following areas?

	<u>Approx. %</u>
A. Local - (within 50 miles or so)	_____ %
B. Regional - (e.g., Northeast, Southwest, etc.)	_____ %
C. National - (within the U. S.)	_____ %
D. Foreign - (Outside the U. S.)	_____ %
Total	100 %

6. What is the approximate current annual sales volume of your company? (Check One)

A. Under - \$100,000	<input type="radio"/>	E. \$5,000,001 - \$10,000,000	<input type="radio"/>
B. \$100,001 - \$500,000	<input type="radio"/>	F. \$10,000,001 - \$50,000,000	<input type="radio"/>
C. \$500,001 - \$1,000,000	<input type="radio"/>	G. \$50,000,001 - \$100,000,000	<input type="radio"/>
D. \$1,000,001 - \$5,000,000	<input type="radio"/>	H. over \$100,000,000	<input type="radio"/>

Definition: In this study, "Defense" procurement, programs, sales and business all refer to sales of materials or services that ultimately are used in weapons or weapon support end use items. Such sales may be either to the Government or to private commercial companies that are prime contractors or subcontractors.

7. What is your experience in Defense business? As a PRIME As a SUB

A. We have NEVER TRIED making sales to the Defense program	<input type="radio"/>	<input type="radio"/>
B. We have TRIED but NEVER MADE such sales	<input type="radio"/>	<input type="radio"/>
C. We have made such sales in the PAST but not now	<input type="radio"/>	<input type="radio"/>
D. We are NOW selling to the defense program	<input type="radio"/>	<input type="radio"/>

8. What is your attitude toward obtaining Defense business? As a PRIME As a SUB

A. We do not have Defense business and do NOT INTEND to seek such business	<input type="radio"/>	<input type="radio"/>
B. We have Defense business now, but intend to GET OUT	<input type="radio"/>	<input type="radio"/>
C. We have Defense business now and intend to STAY	<input type="radio"/>	<input type="radio"/>
D. We do not have Defense business now, but INTEND TO SEEK such business	<input type="radio"/>	<input type="radio"/>

SKIP QUESTIONS 9 AND 10 IF YOU CHECK EITHER ANSWER 8C OR 8D

9. What are the primary reasons you are NOT NOW involved in Defense business or intend to GET OUT. (If you have more than one reason, please rank the order of importance (e.g., 1, 2, 3, etc.)).

- A. Late payment or nonpayment _____
- B. Burdensome paperwork _____
- C. Work is set aside for small business; I am a large business _____
- D. Government furnished equipment problems _____
- E. Uncertainty/Instability of Government business base _____
- F. Government bidding methods _____
- G. Delays in making awards _____
- H. Frequent contract changes _____
- I. Technical Data rights problems _____
- J. Inconsistent quality requirements/standards too high _____
- K. Acceptance/rejection problems with my product/service _____
- L. Audit procedures _____
- M. Low profitability _____
- N. More attractive commercial ventures _____
- O. Inflexible procurement policies _____
- P. Adverse court or board ruling _____
- Q. Adverse General Accounting Office (GAO) decision(s) _____
- R. Inefficient production levels/rates _____
- S. Government attitude(s) _____
- T. Unfair application of the regulations _____
- U. Prime contractor/higher tier subcontractor methods _____
- V. Lost the business to my competitors
(Domestic competition Foreign competition) _____
- W. Contract(s) terminated _____
- X. Not enough Defense business _____
- Y. Inconsistent or unfair past performance evaluation _____
- Z. Too much Government oversight _____
- AA. Other: _____
- AB. Other: _____

10. Please explain, perhaps with an example, the specifics of the items you ranked as 1 and 2 in question 9.

A. _____

B. _____

11. If you do not currently have Defense contracts, how long ago were you involved in Defense business?

	<u>As a PRIME Contractor</u>	<u>As a SUB Contractor</u>
A. 0 - 6 months ago	<input type="radio"/>	<input type="radio"/>
B. 7 - 12 months ago	<input type="radio"/>	<input type="radio"/>
C. 1 - 5 years ago	<input type="radio"/>	<input type="radio"/>
D. Greater than 10 years ago	<input type="radio"/>	<input type="radio"/>
E. Never had Defense business	<input type="radio"/>	<input type="radio"/>

12. If you have been a prime contractor, by which method did you receive the majority of your awards?

A. Sealed Bid (Formal Advertising)	<input type="radio"/>
B. Request for Proposal: Competitive Negotiations	<input type="radio"/>
C. Request for Proposal: Sole Source	<input type="radio"/>
D. Simplified Acquisition Procedures/Micropurchases	<input type="radio"/>

13. Have you ever filed a protest with the General Accounting Office (GAO)? YES NO
If yes, did the GAO rule in your favor? YES NO

14. Have you ever filed an appeal concerning a contract dispute with the Armed Services Board of Contract appeals (ASBCA) or with an appropriate Court?

ASBCA YES NO
Courts YES NO

If yes, was the ruling in your favor?

ASBCA YES NO
Courts YES NO

15. If you are not currently involved in Defense programs, under what condition(s) would you consider participating in Defense business?

16. Have you become a defense contractor in the last 10 years? YES NO

17. If you answered YES to question 16, what were the reasons for becoming a Defense contractor? If you have more than one reason, please prioritize your reasons (i.e., 1, 2, 3, etc.).

A. You are a new defense business

— 1 —

B. You are a Small Business and work is set aside for small businesses

— 1 —

C. You are a Small Disadvantaged Business and work is set aside for small disadvantaged businesses

— 1 —

D. There are more opportunities than commercially

E. Acquisition reform initiatives created a better working environment for contractors:

1. Less paper work _____
2. Less emphasis on military specifications and more emphasis on performance specifications _____
3. Certified Cost and Pricing Data threshold raised _____
4. New definition of a commercial item _____
5. More emphasis on Post-award debriefs _____
6. More emphasis on past performance for source selection _____
7. Increased use of Electronic Commerce (EC)/
Electronic Data Interchange (EDI) _____
8. Other acquisition reform initiatives _____

F. Other: _____

Please explain your high priority reason:

18. I am willing to discuss my views:

A. over the phone	YES <input type="radio"/>	NO <input type="radio"/>
B. by personal interview	YES <input type="radio"/>	NO <input type="radio"/>

19. (OPTIONAL - but please complete if you answered YES to question 18)

Name: _____

Company: _____

Address: _____

City, State & Zip: _____

Telephone: _____

e-mail Address: _____

APPENDIX B. REASON CODES AND DEFINITIONS

REASONS FOR NOT PARTICIPATING IN DEFENSE BUSINESS	
REASON CODE	REASON DESCRIPTION
A	LATE PAYMENT OF NONPAYMENT
B	BURDENSOME PAPERWORK
C	WORK SET ASIDE FOR SMALL BUSINESSES
D	GOVERNMENT FURNISHED EQUIPMENT PROBLMES
E	UNCERTAINTY/INSTABILITY OF GOVERNMENT BUSINESS BASE
F	GOVERNMENT BIDDING METHODS
G	DELAYS IN MAKING AWARS
H	FREQUENT CONTRACT CHANGES
I	TECHNICAL DATA RIGHTS PROBLEMS
J	INCONSISTENT QUALITY REQUIREMENTS/STANDARDS TOO HIGH
K	ACCEPTANCE/REJECTION PROBLEMS WITH MY PRODUCT/SERVICE
L	AUDIT PROCEDURES
M	LOW PROFITABILITY
N	MORE ATTRACTIVE COMMERCIAL VENTURES
O	INFLEXIBLE PROCUREMENT POLICIES
P	ADVERSE COURT OR BOARD RULING
Q	ADVERSE GENERAL ACCOUNTING OFFICE (GAO) DECISIONS
R	INEFFICIENT PRODUCTION LEVELS/RATES
S	GOVERNMENT ATTITUDE(S)
T	UNFAIR APPLICATION OF THE REGULATIONS
U	PRIME CONTRACTOR/HIGHER TIER SUBCONTRACTOR METHODS
V	LOST THE BUSINESS TO MAY COMPETITORS
W	CONTRACT(S) TERMINATED
X	NOT ENOUGH DEFENSE BUSINESS
Y	INCONSISTENT OR UNFAIR PAST PERFORMANCE EVALUATION
Z	TOO MUCH GOVERNMENT OVERSIGHT
9A1	UNFAMILIAR WITH ENTERING DoD BUSINESS
9A2	ONEROUS SPECIFICATIONS
9A3	NON-DEFENSE RELATED PRODUCT
9A4	DoD's BAD REPUTATION
9A5	DoD's INABILITY TO MAKE GOOD BUSINESS DECISIONS
9A6	INABILITY TO WIN CONTRACT AWARD
9A7	LOCATION OF FACILITIES OVERSEAS
9A8	CONTRACTING PROCESS TOO DIFFICULT
9A9	COMPANY TOO SMALL TO DEAL WITH DoD
9A10	REGULATIONS TOO DIFFICULT TO UNDERSTAND

APPENDIX C. GROUP B PRODUCT DESCRIPTIONS

The following table is a list of product descriptions provided by Group B respondents that indicated they were not conducting business with DoD because they perceived they did not have a product or service that suited DoD's needs. The researcher has segregated the product descriptions by: (1) products or services that potentially could be sold to DoD and (2) products or services that are not related to DoD's needs.

PRIMARY PRODUCT OR SERVICE FOR COMPANIES THAT RESPONDED TO 9A3 AS REASON FOR NOT DEALING WITH DoD	
PRODUCTS OR SERVICES THAT COULD BE SOLD TO DoD 80%	HOME IMPROVEMENT PRODUCTS COMPUTER GRAPHICS COMPUTER GRAPHICS SYSTEMS FOR PRINTING NETWORK FAX SERVER SYSTEMS RESELLER AND INTEGRATOR BUILDING MATERIALS SUPPLIES TO GRAPHIC ARTS FOOD TECHNOLOGIES DOCTOR BLADE MANUFACTURER MANAGEMENT TRAINING SEMINARS FOOD TECHNOLOGIES MEDICAL PRODUCTS BEVERAGE EQUIPMENT MANUFACTURER HOME CONTROL SYSTEMS MANUFACTURER WINDOWS MANUFACTURER FURNITURE BUILDING RESIDENTIAL HOMES VITAMIN MANUFACTURER QUALITY ENGINEERING GRAPHITE CARBON ADHESIVE AUTO PRODUCTS MANUFACTURER NETWORK ENGINEERING DRUG DEVELOPMENT MICROPROCESSOR QUALITY CONTROL SYSTEMS WHOLESALER OF INDUSTRIAL SUPPLIES CHEMICAL MANUFACTURER SCREW MANUFACTURER COMPOSITE FABRICATIONS SCREW, BOLTS AND NUTS MANUFACTURER
PRODUCTS OR SERVICES THAT ARE UNRELATED TO DEFENSE REQUIREMENTS 20%	VISUAL COLOR VIEWING AND MATCHING PRODUCTS SOFTWARE PUBLISHING REGISTRATION EQUIPMENT FOR PRINTING DIGITAL FINISHING EQUIPMENT EDITORIAL SERVICE PUBLISHING FARMER COOP

Source: Developed by Researcher

APPENDIX D.
COMPARISON OF GROUP A AND C CONCERNS FOR CONDUCTING DEFENSE BUSINESS USING THE TAXONOMY

GROUPS A AND C COMPARISON OF CONCERNS USING TAXONOMY						
CATEGORY	PHASES					
	PRE-AWARD		AWARD		POST-AWARD	
PROCUREMENT PROCESS	GROUP A	GROUP C	GROUP A	GROUP C	GROUP A	GROUP C
GROUP A = 31.8% GROUP C = 35.4%	F=38 I=4 L=6 TOTAL = 48	12 1 1 14	G=11 TOTAL = 11	6 6	D=3 U=2 L=6 J=7 H=7 A=19 TOTAL = 44	1 1 1 2 4 5 14
GOVERNMENT DECISION	C=7 Q=1 V=4 TOTAL = 12	0 0 2 2	A6 = 0 TOTAL = 0	2 2	K=3 P=1 W=0 Y= 3 TOTAL = 7	2 1 0 0 3
CONTRACTOR DECISION	E=12 M=21 N=34 R=6 X=10 Z= 10 A1=0 A3=0 A7=1 A9=1 TOTAL = 95	5 8 8 1 2 2 0 0 0 26	N/A	N/A	N/A	N/A
PERVASIVE THROUGHOUT ALL PHASES	B=17 O=3 S=3 T=2 A2=2 A4=0 A5=0 A8=1 A10=1 TOTAL = 28	56 22 18 3 6 1 1 0 0 107				
* "L" IS IN 2 AREAS Source: Developed by Researcher	GROUP A % 58.8%	GROUP C % 53.8%	GROUP A % 14.40%	GROUP C % 18.4%	GROUP A % 26.8%	GROUP C % 27.8%

LIST OF REFERENCES

1. Administrative Dispute Act of 1990, Public Number 102-552, 104 2736 at SUSC 571-583.
2. Coopers & Lybrand/TASC, "The DoD Regulatory Cost Premium: A Quantitative Assessment", Prepared for Dr. William Perry, Secretary of Defense, December 1994.
3. Department of Defense Acquisition Law Advisory Panel, "Streamlining Defense Acquisition Laws, Executive Summary: Report of the DoD Acquisition Law Advisory Panel", Defense Systems Management College Press, 1993.
4. Executive Office of the President, Office of Management and Budget, "Inherently Government Functions", Office of Federal Procurement Policy letter 92-1, September 23, 1992.
5. Executive Office of the President, Office of Management and Budget, Standard Industrial Classification Manual, U.S. Government Printing Office, Washington D.C., 1987.
6. Federal Acquisition Regulation (FAR), U.S. Government Printing Office, Washington D.C., 1997.
7. Gore, Al, Vice President of the United States, "Letter to the President: The National Performance Review", dated September 7, 1997.
8. Heberling, Michael, E., PH.D., CPCM, "Open Issues in Acquiring Reform", National Contract Management Journal, Vol. 29. No. 3, 1996, pp. 43-47.
9. Krikorian, George, K., "DoD's Cost Premium Thirty to Fifty Percent", Journal of the American Defense Preparedness Association, September 1992, pp. 1-22.
10. Lamm, David V., "An Analysis of Reasons Companies Refuse to Participate in Defense Business", Technical Paper, Naval Postgraduate School, Monterey, California, March 1987.
11. Marko, Bart, "The Future of Financial Management of Paradigm Shifts on The Information Superhighway", Contract Management, September 1995, pp. 10-14.
12. Office of the Assistant Secretary of Defense (Economic Security), "A Draft DoD Handbook: Assessing Defense Industrial Capabilities", July 1995.

13. Preston, Colleen, A., Deputy Under Secretary of Defense (Acquisition Reform), "The Federal Acquisition Regulation, Why We Owe It to the Acquisition Profession to Redesign It", Contract Management, April 1995, pp. 44-45.
14. Reddy, Leo, "How U.S. Defense Industries View Diversification", The Center of Strategic and International Studies, Washington, D.C., 1991.
15. Tomaszczuk, Alex, D., "Procurement Act To Go Into Effect", The National Law Journal, July 15, 1996, Government Contracts p. B4.
16. United States Congress, Office of Technology Assessment, "Redesigning Defense: Planning the Transition to the Future U.S. Defense Industrial Base", U.S. Government Printing Office, Washington, D. C., 1991.
17. United States Defense Industrial Base Panel, "Future of the Defense Industrial Base", Report to United States Congress, House Committee on Armed Services, Washington D.C., December 1992.
18. United States Defense Industrial Base Panel, "The Ailing Defense Industrial Base: Unready for Crisis", Report to the United States Congress, House Committee on Armed Services, Washington, D.C., December 1980.
19. United States General Accounting Office Report to Congressional Requesters, "Defense Industry: Trends in DoD Spending, Industrial Productivity, and Competition", GAO/PEMD-97-3, January 31, 1997.
20. Yukins, Christopher, "Managing Electronic Commerce on the Federal Acquisition Computer Network (FACNET)", National Contract Management Journal, Vol. 27, No. 1, 1996, pp. 35-39.
21. <<<http://www.acq.osd.mil/ar/ar.html>>>, "Summary of Key Provisions in the Federal Acquisition Reform Act of 1996", June 1997. Acquisition Reform Office Home Page.
22. <<<http://www.acq-ref.navy.mil/cots.html>>>, "Commercial Industry: A Valued Supplier in the U.S. Defense Marketplace", May 20, 1997. Porter, Daniel: Acquisition Reform Home Page.
23. <<<http://www.acq-ref.navy.mil/pcsu.html>>>, "Performance and Commercial Specifications Usage", June 1997. Navy Acquisition Reform Office Home Page.
24. <<<http://www.cgw.acqr/documents.html>>>, "Military Project Management Handbook", January 1997. Cleland, Gallagher & Whitehead Home Page.

25. <<http://www.faerge.com/areas/area_gcl.html>>, "Government Contract Law Landmark Procurement Legislation: The Federal Acquisition Streamlining Act (FASA) of 1994", June 1997. Eckland, Jeff: Faegre & Benson LLP Home Page.
26. <<<http://www.govexec.com>>>, "Procurement Reform Guide, Details of the New Procurement Law: The Federal Acquisition Streamlining Act Creates a Uniform Procurement System", January 1997. Government Executive Home Page.
27. <<<http://www.govexec.com/procure/article/0195prs.html>>>, "The Government Moves to Create a More Efficient and Responsive Procurement System", July 1997. Corbin, Lisa: Government Executive Home Page.
28. <<<http://www.mcaleese.com/papers/far15-2.html>>>, "Presentation in Front of The FAR Council Public Meeting: Remarks on FAR 15 Rewrite, Phase I", Aug 1997. McAlesses & Associates, P.C Home Page.
29. <<<http://www.pr.doe.gov>>>, "Summary of Clinger-Cohen Act of 1996", July 1997. United States Department of Energy (DOE), Office of Procurement and Assistance Management: Department of Energy Home Page.

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center..... 2
8725 John J. Kingman Rd., STE 0944
Ft. Belvoir, VA 22060-6218
2. Dudley Knox Library..... 2
Naval Postgraduate School
Monterey, CA 93943-5101
3. Defense Logistics Studies Information Exchange..... 1
U.S. Army Logistics Management College
Fort Lee, VA 23801-6043
4. Prof. David Lamm, Ph.D., Code SM/LT..... 3
Department of Systems Management
Naval Postgraduate School
Monterey, CA 93943-5101
5. Prof. Mark W. Stone, J.D., Code SM/ST 1
Department of Systems Management
Naval Postgraduate School
Monterey, CA 93943-5101
6. LCDR Susan O. Randall 4
27434 Cool Water Ranch Road
Valley Center, CA 92082